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TAX POLICY

Competition Between Taxable Businesses and Tax-Exempt Organizations

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The Honorable Dan Rostenkowski
Chairman, Joint Committee on Taxation

The Honorable Lloyd Bentsen
Vice Chairman, Joint Committee on Taxation
Congress of the United States

Competition between taxable businesses and tax-exempt organizations in providing similar services is becoming a concern of both these communities. Recognizing this concern, the Joint Committee on Taxation requested us to provide information relating to this competition issue. This briefing report provides available information on (1) the evolution and growth of the tax-exempt community, (2) various legislative and administrative efforts that address the competition issue, and (3) concerns voiced by representatives of selected taxable businesses and tax-exempt organizations about the issue.

Overall, we found that complete data do not exist to quantify the nature, extent, and impact of competition between these two communities. However, the limited data available indicate that taxable businesses and some tax-exempt organizations are increasingly competing to provide similar services. Representatives of taxable businesses and tax-exempt organizations acknowledge that competition exists and is increasing between the two, but have varying opinions on the issue. Some taxable business representatives question the appropriateness of what they believe is direct competition from tax-exempt organizations. Some tax-exempt organization representatives, on the other hand, question what they regard as the expansion of taxable businesses into tax-exempt areas. With better information it may be possible to (1) identify problems associated with the competition issue, (2) address any problems related to specific competitive activities, and (3) determine whether a reexamination of the interrelationship between the two communities is needed.

To respond to the Committee's request, we analyzed the Internal Revenue Service's (IRS) tax-exempt organization master file data and IRS' Statistics of Income (SOI) Division studies of 1940, 1975, and 1982 returns. Further, we reviewed the legislative history of Public Law 81-814, which

addressed competition between taxable businesses and tax-exempt organizations through an unrelated business income tax (UBIT). We also discussed the administration of this tax with IRS program officials. We obtained information on the concerns of taxable businesses and tax-exempt organizations on the competition issue by interviewing officials from various groups. To further develop data on the extent of these concerns, we sent a questionnaire to 1,738 taxable businesses in six industries that reportedly experienced competition with tax-exempt organizations. We did not send a questionnaire to tax-exempt organizations because, due to the lack of complete data, we could not readily identify a universe of tax-exempt organizations engaging in particular income-producing or commercial activities.[1] Section 1 provides more detail on our scope and methodology.

Evolution and growth of the tax-exempt community

The tax-exempt community has significantly increased over the years in terms of number of organizations, statutory exempt categories, types of activities, and resources. Today, IRS' master file includes over 800,000 active tax-exempt organizations which are organized under 25 broad categories and engage in 1 or more of over 260 activities, such as religious, cultural, historical, and health service.

Available data also indicate that Internal Revenue Code (IRC) section 501(c)(3) organizations, such as those engaged in charitable, religious, educational, and health activities, dominate the tax-exempt community. Also, a few large organizations control the majority of total tax-exempt community resources. Further, while tax-exempt organizations rely on a variety of revenue sources, it appears that they

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[1]Income-producing and commercial activities are both intended to generate revenues from fees-for-service, product sales, etc. For the purpose of this briefing report, income-producing activities are generally less profit-oriented whereas commercial activities are generally more businesslike with regard to marketing and pursuit of profit. Both types of activities may be related or unrelated to an exempt purpose.

are generally becoming less reliant on charitable sources of revenue, such as contributions and government support, and more reliant on income-producing or commercial activities to fund their operations. Section 2 provides more detail and perspective on the tax-exempt community.

Efforts to address competition

Legislative and administrative efforts to address competition between taxable businesses and tax-exempt organizations are not new. In 1950, for example, the Congress established the UBIT--a tax that is imposed on the income of a tax-exempt organization derived from activities not substantially related to its exempt purpose. If income is derived from an activity related to an organization's exempt purpose, it is not subject to the UBIT regardless of the competitive nature of the activity. For example, fees for medical services provided patients in a tax-exempt hospital are not taxed.

In administering the UBIT, IRS officials said that it is often difficult to determine whether the income-producing or commercial activity is not substantially related to the exempt purpose and therefore subject to the tax. They noted that there are no concrete rules for determining the relatedness of such activities to an organization's exempt purpose. All facts and circumstances regarding an activity must be considered in relation to the nature and extent of the exempt function. Section 3 provides more detail on the legislative and administrative efforts to address the competition issue.

Views on the competition issue

Representatives of the taxable business and tax-exempt communities recognize that competition exists and that it may be or is becoming a problem. Their differing views concerning the competition issue, however, reflect the complex nature of the issue.

Responses to a questionnaire we sent to taxable businesses in six industries--independent research, racquet sports, veterinarian, travel, tour, and audio-visual communications--indicated that the competition issue is perceived differently in each industry. For example, we project on the basis of our sample that about 84 percent of 215 research businesses and 90 percent of 462 racquet sports businesses believe they face competition from 1 or more tax-exempt organizations. In

contrast, we project to a universe of 7,349 travel agents that 55 percent report having no tax-exempt competitors. Generally, representatives of the taxable business community question the appropriateness of tax-exempt organizations competing with taxable businesses and question the justification for tax-exempt status in these situations. They believe that the UBIT does not adequately address the competitive activities of tax-exempt organizations. They also said that the UBIT is currently too ambiguous and contains too many exceptions to address the competition issue.

Representatives of the tax-exempt community hold different views on the competition issue. While they recognize that some tax-exempt organizations are expanding their income-producing or commercial activities, they view this expansion as important to further their exempt purposes. They also recognize that some competition has always existed and that it may be increasing. However, they believe that, to a large extent, it is the result of taxable businesses expanding their activities into areas traditionally regarded as tax-exempt, such as day care and physical fitness. They believe that with proper enforcement by IRS, the UBIT is the proper framework for determining the taxable income of tax-exempt organizations. Section 4 provides more detail on the concerns and problems voiced by selected representatives of both communities.

As requested by your office, we did not obtain official comments from IRS. However, IRS program officials reviewed a draft of this document and suggested some clarifying language that we used in preparing the final product. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of issuance. At that time we will send copies to the IRS, congressional committees having an interest in the matters discussed, and other interested parties. If you have questions regarding this report, please call Gerald Stankosky on (202) 566-6503.

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Abbreviations

GAO	General Accounting Office
IRC	Internal Revenue Code
IRS	Internal Revenue Service
SBA	Small Business Administration
SOI	Statistics of Income
UBIT	Unrelated Business Income Tax

SECTION 1

INTRODUCTION

The tax-exempt or nonprofit community is composed of many organizations that engage in a variety of activities. While some of these tax-exempt organizations perform a single activity, others perform multiple activities. Many rely primarily on donated funds to perform their activity, others engage in income-producing or commercial activities either related to or unrelated to their exempt purpose. Income from substantially unrelated activities is generally subject to an unrelated business income tax (UBIT), established by Public Law 81-814.

Because taxable businesses, particularly small businesses, and tax-exempt organizations are engaging in similar activities, the issue of competition has become a concern to both communities. For example, the Small Business Administration (SBA) and various trade and industry associations have begun to question the activities of many tax-exempt organizations that are seen as directly competing with taxable businesses. They believe that some tax-exempt organizations increasingly resemble taxable businesses. The tax-exempt community, on the other hand, regards these activities as furthering its exempt purposes and questions what it regards as the expansion of taxable business into traditional tax-exempt activities. The concern over competition is likely to continue as tax-exempt organizations increasingly rely upon income-producing or commercial sources of revenue to compensate for reduced government support and the two communities continue to engage in similar activities. Some action has been taken at the federal, state, and local level to begin to address the competition issue.

OBJECTIVES, SCOPE, AND METHODOLOGY

Recognizing the growing interest in the competition issue, the Joint Committee on Taxation requested that we provide information on this issue. Specifically, our objectives were to provide information on (1) the evolution and growth of the tax-exempt community; (2) legislative and administrative efforts that address the issue of competition between the taxable business and tax-exempt communities; and (3) concerns voiced by representatives of selected taxable businesses and tax-exempt organizations on the competition issue.

To accomplish the first objective, we relied upon available IRS data to provide perspective on the tax-exempt community. These data, however, are limited, especially with regard to identifying and quantifying those income-producing or commercial activities of tax-exempt organizations that compete with taxable businesses. The most comprehensive trend data was available from

IRS' Statistics of Income (SOI) studies of 1946, 1975, and 1982 annual information returns. We were able to obtain and analyze various statistics on tax-exempt organizations' revenues and activities from these studies.

The 1946 data were obtained from the 99,467 returns filed in calendar year 1946 by tax-exempt organizations. These did not, however, include organizations not required to file at the time nor an indeterminate number required to file which did not. The 1975 data were estimates based on a stratified random sample of 51,479 of the 325,777 returns filed by all categories of tax-exempt organizations. The 1982 data were obtained from a sample of 4,398 of the 75,738 returns filed by charitable and educational organizations (section 501(c)(3) of the Internal Revenue Code (IRC)) and a sample of 614 of the 18,057 returns filed by social welfare organizations (section 501(c)(4)). See appendix I for a listing of the types of tax-exempt organizations under IRC 501(c).

In addition to the SOI data, we reviewed IRS' tax-exempt organization master file data to obtain data on the number of organizations at various periods since the inception of the master file in 1965. We also reviewed studies conducted by the Bureau of the Census in 1977 and 1982, the Urban Institute in 1982, the Partners for Liveable Places and Rockefeller Brothers Fund in 1982, the Independent Sector in 1984, the SBA in 1984, and the National Assembly of Voluntary Health and Welfare Organizations in 1985.

To address the second objective, we reviewed the legislative history of Public Law 81-814, which addressed the issue of competition between taxable businesses and tax-exempt organizations through UBIT. We also discussed IRS' administration of UBIT with IRS' Chief Counsel and National Office Exempt Organization officials, and we reviewed relevant IRS General Counsel memoranda, revenue rulings, and court cases related to the competition issue. To document other efforts to address the competition issue, we met with representatives of the SBA's Office of Advocacy and members of the taxable business and tax-exempt communities. We also obtained information on the National Science Foundation, the Postal Rate Commission, the Postal Service, and some state and local government efforts to address the competition issue.

To address the third objective, we discussed the competition issue with representatives of the taxable business and tax-exempt communities. Because the competition issue has been primarily identified as a concern of small business, we obtained views from officials at the SBA Office of Advocacy. We also discussed the competition issue with representatives of 23 of 26 industry associations participating in the Business Coalition for Fair

Competition representing about 100,000 businesses (see app. VIII).

In order to collect information on how taxable businesses perceive the competition issue, we sent a questionnaire to 1,738 randomly selected businesses represented by 5 associations participating in the Business Coalition for Fair Competition. These associations represent businesses in the independent research, racquet sports, veterinarian, travel, tour, and audio-visual communications industries. We selected these industries because representatives from various businesses within these industries seemed to voice the most concern about competition. We wanted to gain perspective on whether these concerns were local or industrywide. While we projected the views and perceptions of the respondents to the entire associations' membership representing these six industries, these views and perceptions are not necessarily those of the entire taxable business community. We did not verify the existence of alleged competition nor document the validity of effects reported by the respondents. (See app. X for questionnaire objectives, scope, and methodology and app. XI for a copy of the questionnaire.)

To obtain perspective on the competition issue as viewed by the tax-exempt community, we solicited views from representatives of national groups representing various types of tax-exempt organizations. These are primarily charitable, educational, and social welfare organizations which comprise over half of the tax-exempt community. The groups include the Grants and Contracts Project, a 13-member group of national voluntary organizations and their affiliates; the National Assembly of National Voluntary Health and Social Welfare Organizations, a 30-member group representing voluntary human service organizations; and the Independent Sector, composed of 283 national voluntary organizations and 258 donor organizations. We also discussed the issue with representatives of the YMCA of the USA and the Humane Society of the United States. We did not send a questionnaire to tax-exempt organizations' representatives because, due to the lack of complete data, we could not readily identify a universe of tax-exempt organizations engaging in particular income-producing or commercial activities.

We did not determine whether the competition cited by representatives of the taxable business community actually existed, nor did we validate the effects of such competition. We also did not review the prices charged for services nor the expenses incurred by tax-exempt organizations. Therefore, we could not determine whether tax-exempt organizations offered goods and services for more or less than taxable businesses nor whether tax-exempt organizations realized a surplus from their competitive activity.

We conducted our detailed field work between January 1986 and September 1986 in accordance with generally accepted government auditing standards.

SECTION 2

EVOLUTION AND GROWTH OF THE TAX-EXEMPT COMMUNITY

The tax-exempt community has evolved over the years and has substantially increased in terms of number, statutory exempt categories, types of activities, and resources. While it is now very diverse, the community appears to be dominated by certain tax-exempt organizations, with a few large organizations controlling the majority of the community's total resources. Available data indicate that tax-exempt organizations rely on a variety of revenue sources, such as contributions, dues, and business receipts, to fund their activities. The data also indicate they are becoming less reliant on charitable and government sources of revenue and more reliant on income-producing or commercial activities to generate revenue. Although a number of large organizations, such as hospitals and colleges, have traditionally relied on charging fees for services to support their activities, it appears that many of the smaller nonprofits have also begun to charge fees. Quantifying this shift to income-producing or commercial activity, however, and analyzing its impact has been impeded by the limited data available on the tax-exempt community.

DATA ON THE TAX-EXEMPT COMMUNITY ARE LIMITED

Although data bases on segments of the tax-exempt community exist, such as hospitals and colleges, data on the overall tax-exempt community, especially with regard to its involvement in income-producing or commercial activities, are limited. One reason for this lack of data may be that prior interest in tax-exempt organizations mainly focused on the issue of philanthropy. IRS routinely collects tax return and other data on tax-exempt organizations and has the best data available on these organizations. However, these data do not encompass the entire tax-exempt community. In addition, they may be inaccurate and do not identify the type, specific nature, and extent of income-producing or commercial activity of tax-exempt organizations. For example:

-- IRS reported almost 870,000 active tax-exempt organizations in 1982, but the Independent Sector, a nonprofit organization, estimated that there were almost 1.2 million nonprofit organizations. This difference may exist because churches and other organizations may not have applied for tax-exempt status and consequently would not appear in IRS' data base.

-- IRS officials recognize that the primary exempt activity codes reported by organizations at the time of their exemption may not now be accurate, and that others may have been erroneously recorded. Further, IRS has been unable to determine the status of over 50,000 organizations with which it has had no contact for several years. Also, IRS officials stated that some of the revenue and asset data it maintains are flawed.

-- Income-producing or commercial activities cannot always be specifically identified because revenue from such activities reported to IRS by tax-exempt organizations may not be sufficiently detailed and IRS totals income items in its data base.

Private researchers who have attempted to study the scope and nature of tax-exempt organizations have also found data sources to be limited or inadequate. For example, two nonprofit groups, the Urban Institute and the Independent Sector, conducted major studies of charitable and social welfare tax-exempt organizations and in their 1984 reports noted significant information gaps.

The most comprehensive data currently available regarding the various revenue sources of all tax-exempt organizations were compiled for SOI studies of returns filed in 1946 and 1975 by most tax-exempt organizations and filed by section 501(c)(3) and section 501(c)(4) charitable and social welfare organizations in 1982. These studies are useful for analyzing and identifying general trends in the growth and nature of the overall tax-exempt community because of their statistical reliability. However, there are limitations in comparing the data because (1) some organizations included in later studies were not in existence at the time of earlier studies; (2) return filing requirements varied, and hence the available universe varied; (3) certain data, such as primary activity of the organization, were dependent upon what was reported by the organizations and were not always accurate; and (4) revenue sources were not consistently classified by the organizations.

IRS officials recognize that better data are needed on the nature and extent of tax-exempt organizations activities, including income-producing or commercial activities. According to program officials, IRS is revising the processing procedures for transcribing tax-exempt return information into its data base. The purpose of these revisions is to assure greater accuracy in the data IRS maintains on tax-exempt organizations. Also, IRS is cooperating with the National Center for Charitable Statistics to analyze a sample of tax-exempt organizations' information returns and to test a new system to better classify tax-exempt organizations' activities. Further, in response to a prior GAO

report,[2] IRS plans to gather data on tax-exempt organizations to aid in selecting organizations for examination for UBIT. While these initiatives are not designed to address the competition issue or quantify the extent of income-producing or commercial activity, the information derived from these initiatives may provide additional perspective on this issue.

Although data on tax-exempt organizations are limited, we analyzed the data that were available in an attempt to provide more perspective on the tax-exempt community and its income-producing or commercial activities.

TAX-EXEMPT COMMUNITY HAS INCREASED IN TERMS OF NUMBER OF ORGANIZATIONS, STATUTORY EXEMPT CATEGORIES, TYPES OF ACTIVITIES, AND RESOURCES

The tax-exempt or nonprofit community has increased over the years in terms of number of organizations, statutory exempt categories, types of activities, and resources. It now represents a diverse set of organizations ranging from rather informal social or neighborhood clubs with limited resources, to complex multimillion dollar medical complexes, educational institutions, and fund-raising organizations. In 1946, annual information returns were filed by 99,467 tax-exempt organizations. By 1963, IRS estimated that the number of tax-exempt organizations was between 400,000 and 500,000. Today, IRS data indicate that there are over 800,000 tax-exempt organizations. About 72 percent of these organizations were granted exempt status since 1960.

The number of statutory tax-exempt categories has also continued to increase, growing from 15 in 1946 to 25 in 1986 (see app. II for data on growth of these categories). As the number of categories has increased, so has the number of specific exempt activities within these categories. IRS listed 90 different tax-exempt activities in 1965, but now there are over 260 such activities (see app. III). Further, many tax-exempt organizations engage in more than one activity. For example, 1985 IRS data show that 43 percent of tax-exempt organizations reported performing one activity, 30 percent reported performing two activities, and 27 percent reported performing at least three activities. While many of these appear to be traditional charitable-type activities, such as missionary and fund-raising activities, others appear to be more similar to taxable businesses in nature. For example, some tax-exempt organizations offer publishing services, conduct travel tours, and perform marriage counseling activities.

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[2] IRS' Examination Selection System For Exempt Organizations' Unrelated Business Income, GAO/GGD-85-64, July 8, 1985.

In addition, available data suggest that the tax-exempt community has sizeable financial resources and continues to increase as a share of the national economy. For example, the U.S. Department of Commerce estimates that $1.2 billion, or 1.3 percent, of the $91 billion gross national product (GNP) in 1930 could be attributed to nonprofit institutions. This share grew to $131 billion, or 3.3 percent, of the $3,989 billion GNP by 1985. Further, the Independent Sector estimated that total employment by nonprofit institutions was 11.1 million in 1980, representing almost 10 percent of total national employment.

TAX-EXEMPT COMMUNITY IS DOMINATED BY CERTAIN ORGANIZATIONS

The tax-exempt community appears to be dominated by section 501(c)(3) organizations, such as those engaged in charitable, religious, educational, and health activities. These organizations increased from 137,487, or 34 percent of all tax-exempt organizations in 1968, to 366,071, or 43 percent of all organizations in 1985 (see app. II). The dominance of section 501(c)(3) organizations is also evidenced by their share of the tax-exempt community's total revenue and total assets. The 1975 SOI study estimated that these organizations controlled approximately 57 percent of the community's $114.6 billion in total revenue and 62 percent of the community's $176.3 billion in total assets. The study further shows that within the section 501(c)(3) category, organizations engaged in health and educational activity are most dominant. For example, organizations operated for health activity, such as hospitals, and organizations operated for educational activity, such as colleges, accounted for 36 percent and 17 percent of total community revenue, respectively (see app. IV).

In addition to section 501(c)(3) organizations being dominant, the tax-exempt community also seems to be dominated by a small number of large organizations that control the majority of total tax-exempt community resources. For instance, the 1975 SOI data disclosed that only 1 percent of all tax-exempt organizations had annual revenue of $10 million or more, but this 1 percent accounted for $68.9 billion, or 60 percent, of the tax-exempt community's total revenue. IRS data show the percentage of total revenue concentrated in organizations with assets of $10 million or more increased from 60 percent in 1975 to 72 percent in 1978. Large organizations operated for health and educational activity are specific examples of those that dominate this community. The 1975 SOI data show that 3 percent of all organizations operated for health and educational activities had total revenue of $10 million or more and that these organizations accounted for $45.3 billion, or 40 percent, of the tax-exempt community's total revenue.

TAX-EXEMPT ORGANIZATIONS HAVE VARIOUS REVENUE SOURCES

Tax-exempt organizations rely on various sources of revenue to finance their exempt purposes. Major sources include contributions, government grants, membership fees, and income-producing or commercial activities. Other sources include revenue from interest, dividends, royalties, and sales of assets. Reliance on any one source of revenue appears to be a function of an organization's activity and, to a lesser extent, its size.

Table 2.1 shows sources and amount of revenue for those tax-exempt organizations included in the 1946 and 1975 SOI studies--the most current available data. The data suggest that income-producing or commercial type revenue has always been a major component of overall tax-exempt organization revenue. The data also suggest a significant growth in tax-exempt community revenue overall. This overall growth represents the combined result of expanded tax-exempt organization operations, the expansion of government support for social services, the addition of new organizations, and the increase in the number of organizations required to file returns in 1975 as compared to 1946. The increase may also be attributable to the rise in health service and education costs, activities in which the tax-exempt community has traditionally been involved.

Table 2.1:
Tax-Exempt Organization
Revenue for 1946 and 1975
(in Constant 1975 Dollars)[a]

Revenue sources	1946 Amount	1946 Percent of total	1975 Amount	1975 Percent of total
Contributions, gifts, grants, etc.	$1,543,552	16	$ 20,518,184	18
Dues and assessments	2,429,143	25	19,305,390	17
Business receipts	4,584,505	47	44,787,518	39
Interest	583,483	6	3,171,047	3
Dividends	493	-	680,790	-
Rents	149,810	2	1,029,999	1
Royalties	[b]	-	134,003	-
Gross sales of assets[c]	138,495	1	13,943,032	12
Other	235,564	2	11,015,981	10
Total revenue	$9,665,045	99[d]	$114,585,944	100

Source: SOI statistics.

[a]Converted from 1946 dollars to 1975 dollars using the Consumer Price Index.

[b]Included in other revenue for 1946.

[c]For 1946, the sales of assets figure represents the net gain (loss) as opposed to the gross receipts from such as reported in 1975.

[d]Percent column does not add to 100 due to rounding.

Further analysis of the 1975 data showed that certain types of organizations rely on different sources of revenue. For example, contributions represented over 46 percent of revenue for organizations engaged in religious activities and less than 8 percent for organizations engaged in health-related activities. Further, as shown in appendix IV, business or fee-for-service

receipts comprised 50 percent or more of revenue for 2 activities--health services and mutual organizations--but accounted for less than 25 percent of total revenue for 13 other activities. Our analysis also showed that as an organization's total revenue increased, business receipts appeared to provide a greater share of revenue. For example, business or fee-for-service receipts represented 26 percent of revenue for organizations with total revenue of less than $25,000 but 39 percent for organizations with total revenue of $10 million or more.

In its 1984 report, the Independent Sector also found different reliance on revenue sources by activity. For example, while contributions represented 28 percent of overall revenue for those organizations studied, contributions ranged from 9 percent for health services organizations to 86 percent for religious organizations. Dues and other fees, which comprised 39 percent of revenue overall, ranged from 10 percent for arts and cultural organizations to 53 percent for educational/research organizations.

TAX-EXEMPT COMMUNITY IS INCREASINGLY RELIANT ON INCOME-PRODUCING OR COMMERCIAL ACTIVITY

As tax-exempt organizations have evolved over the years in terms of number and activity, many appear to have become generally more reliant on income-producing or commercial activities and less reliant on support from contributions, government grants, and dues. Some organizations are now imposing fees for services related to their exempt purpose previously provided at little or no cost, expanding services to new markets, and operating income-producing or commercial activities either related or unrelated to their exempt purposes. The tax-exempt community has attributed this shift in funding sources, in part, to a reduction in government support and the inability of traditional funding sources to compensate for this reduction and to finance organizational operations. Indications are that this trend is continuing.

This increased reliance on revenue from income-producing or commercial activities is shown in table 2.2. Although contributions increased from $.6 billion in 1946 to $31.3 billion in 1978, as a percentage of total revenue it decreased from 17 percent to 13 percent during that period. Similarly, while dues and assessments increased $28.2 billions, they decreased as a percent of revenue from 26 percent to 12 percent for the same period. Most noticeable was the increase of other revenue as a percent of total revenue--from 57 percent in 1946 to 75 percent in 1978. The other revenue category includes such items as business receipts, interest, dividends, rents, royalties, sales of assets, and other sources.

Table 2.2:
Major Revenue Sources for
1946, 1975, 1977, and 1978
(amounts in billions)

Year	Contributions		Dues and assessments		Other revenue		Total	
	amount	percent	amount	percent	amount	percent	amount	percent
1946	$ .6	17	$ .9	26	$ 2.0	57	$ 3.5	100
1975	20.5	18	19.3	17	74.8	65	114.6	100
1977	24.0	14	24.7	14	127.8	72	176.5	100
1978	31.3	13	29.1	12	178.0	75	238.4	100

Source: Data for 1946, 1977, and 1978 are based upon returns filed with IRS for those years. Data for 1975 are estimates based upon an SOI statistical sample.

A complete breakdown of the other revenue category is not available for all of the above periods, but available data indicate that business receipts were, and continue to be, a major source of revenue for tax-exempt organizations. For example, the SOI study of 1946 data estimates that 50 percent of the tax-exempt organizations that filed a return had business receipts amounting to $1.7 billion, or 47 percent of total revenue of $3.5 billion. The 1975 SOI study shows that 49 percent of the tax-exempt organizations that filed a return had business receipts amounting to $44.8 billion, or 39 percent of total revenue of $114.6 billion. The 39 percent figure may not represent a reduced reliance on business receipts from 1946 because the 1975 data represent many more organizations involved in more activities and generating more revenue than organizations represented in the 1946 data. In addition, many different types of tax-exempt organizations were required to file in 1975 that were not required to file in 1946.

The trend toward less reliance upon contributions and dues is more evident among those organizations established for charitable, religious, and educational purposes (section 501(c)(3) organizations). As shown in table 2.3, contributions as a percentage of total revenue for section 501(c)(3) organizations decreased from 36 percent of total revenue in 1946, to 27 percent in 1975, to 18 percent in 1982. Other revenue as a percentage of total revenue steadily increased from 59 percent to 71 percent and 81 percent, respectively, during the same periods.

Table 2.3:
Major Revenue Sources for
Section 501(c)(3) Organizations
in 1946, 1975, and 1982

Source of revenue	1946 Amount (000)	1946 Percent of total	1975 Amount (000)	1975 Percent of total	1982 Amount (000)	1982 Percent of total
Contributions	$ 446,227	36	$13,326,410	27	$ 41,272,718	18
Dues and assessments	61,990	5	1,530,659	2	2,476,708	1
Other	741,074	59	48,950,500	71	190,460,291	81
Total revenue	$1,249,291	100	$68,807,569	100	$234,209,717	100

Source: SOI studies.

Other studies performed on the nonprofit charitable service community, which is primarily composed of section 501(c)(3) and section 501(c)(4) organizations, have also noted an increased dependency upon self-generated revenue. For example, a 1982 survey of 3,411 such organizations (excluding churches, hospitals, and schools) by the Urban Institute found that alternate sources of funds to support activities were sought with an increased reliance on self-generated income from dues, fees, and sales. The study found that 70 percent of the revenue generated to offset the reduction of government support in 1981 and 1982 was raised through commercial sources of revenue. In addition, 50 percent of the organizations sampled expected to increase their revenues from sales of goods and services. Another study published by Partners for Liveable Places and the Rockefeller Brothers Fund in 1983 disclosed that 60 percent of the 130 small and medium-size section 501(c)(3) organizations studied generated revenue from commercial activities, and that 69 percent of these commercial activities had been started after 1970. The National Assembly, a nonprofit organization representing voluntary health and social welfare organizations, concluded that income-producing or commercial activity has emerged as the nonprofit community's only viable alternative to reducing services. See appendixes IV through VII, for more information on tax-exempt organizations' revenue.

SUMMARY

Data on the evolution and growth of the tax-exempt community, especially with regard to those income-producing or commercial activities that compete with taxable business, are limited. The data that are available, however, indicate that the tax-exempt community (1) is diverse and has significantly

increased in terms of number of organizations, statutory exempt categories, types of activities, and resources; (2) is dominated by section 501(c)(3) organizations, such as those engaged in charitable, religious, educational, and health activities with a small number of large organizations controlling the majority of revenue; (3) relies on various sources of revenue to finance activities; and (4) is increasingly reliant upon income-producing or commercial activities as a source of revenue.

IRS officials recognize that better data are needed on the nature and extent of tax-exempt organizations' activities and have initiatives planned or underway to develop better data. While these initiatives are not specifically designed to address the competition issue or quantify the extent of income-producing or commercial activities, the information derived from these initiatives may provide additional perspective on this issue.

SECTION 3

LEGISLATIVE AND ADMINISTRATIVE EFFORTS TO ADDRESS COMPETITION BETWEEN TAX-EXEMPT ORGANIZATIONS AND TAXABLE BUSINESSES

In 1950, the Congress enacted legislation which imposed the UBIT on the income of tax-exempt organizations derived from activities that are not substantially related to the organizations' exempt purpose. The purpose of this legislation was to help address the alleged unfair competitive advantage enjoyed by certain tax-exempt organizations when competing with taxable businesses and to prevent the potential loss of tax revenue. This legislation did not impose a tax on income derived from any activity that is related to an organization's exempt purpose regardless of its competitive nature.

Exceptions to and interpretation of the applicability of the UBIT have led to concern over the adequacy with which the tax addresses competition between taxable businesses and tax-exempt organizations. Also, some federal, state, and local governmental entities have taken specific actions to address the competition issue.

UBIT ENACTED TO ADDRESS UNFAIR COMPETITION

For many years, some tax-exempt organizations have supplemented their income with revenue from various commercial type activities. For example, in 1984, 22,279 tax-exempt organizations reported engaging in taxable unrelated activity. Prior to 1950, all income was considered exempt from tax if used exclusively for exempt purposes even if the nature of the activity generating the income were unrelated to the exempt purpose. In 1950, the Congress imposed the UBIT on such unrelated business income.

The congressional intent behind UBIT was primarily to prevent (1) unfair competition between taxable businesses and tax-exempt organizations with respect to commercial activities unrelated to an exempt purpose and (2) a potential federal tax revenue loss which could result from tax-exempt organizations purchasing taxable businesses and operating them on a tax-free basis. The UBIT was not intended to have any effect upon the tax-exempt status of an organization, nor was it intended to discourage tax-exempt organizations from engaging in a related commercial activity regardless of its competitive nature.

Rather, it was intended to impose the same tax upon unrelated commercial activities as is imposed upon taxable businesses.

UBIT is imposed under IRC sections 511, 512, 513, and 514. Section 511 provides for a UBIT upon unrelated business taxable income; section 512 defines unrelated business taxable income; section 513 defines an unrelated trade or business; and section 514 deals with income derived from debt-financed property. Under IRS regulations, for an activity to be subject to UBIT, the following criteria apply:

-- It must be a trade or business. This is generally any activity carried on for the production of income from the sale of goods or the performance of services.

-- It must be regularly carried on. A trade or business is regularly carried on if it is similar to commercial activities of a nonexempt organization with respect to frequency, continuity, and manner of pursuit.

-- It must not be substantially related to the organization's exempt purpose. A trade or business is not substantially related if a causal relationship does not exist between the business and achievement of an exempt purpose. There is a substantial relationship when the business contributes importantly to the exempt purpose, other than through the production of income.

There are, as in other sections of the IRC, numerous qualifications, conditions, and exceptions to the UBIT. The 1950 legislation, for example, specifically excluded from the definition of unrelated trade or business any activity which

-- is performed without compensation;

-- is carried on by a section 501(c)(3) organization primarily for the convenience of its members, students, patients, officers, or employees; and

-- consists of selling merchandise, substantially all of which has been contributed.

Income from the above activities was not to be taxed regardless of whether the activities were in competition with a taxable business, were regularly carried on, or were not related to any exempt purpose of the organization. The second exception was specifically inserted to protect activities of universities such as dining halls, restaurants, and dormitories. The third exception was intended to exclude income from thrift shops.

The 1950 legislation also excluded from UBIT three classes of research related activities--research for a government,

research by colleges and hospitals for others, and basic research activities. Also, generally excluded from tax was income from dividends, interest, annuities, royalties, rents from real and personal property (subject to exceptions), and capital gains and losses. In support of these exclusions, the Congress recognized that these types of income "have long been recognized as proper for educational and charitable organizations," and "that investments of this sort are not likely to result in serious competition for taxable business having similar income" (H. R. Rep. No. 2319, 81st Cong., 2d Sess. 38 (1950); S. Rep. No. 2375, 81st Cong., 2d Sess. 30-31 (1950)). A $1,000 gross income exclusion was also provided to minimize IRS' monitoring of small cases.

With the exception of churches and associations of churches, the 1950 legislation imposed the UBIT on current section 501(c)(2), (3), (5), and (6) organizations. The Congress extended the UBIT in 1969 to all tax-exempt organizations and also expanded the types of income to which it applied. Exceptions still exist, however, for various activities and income items. Most recently, the Tax Reform Act of 1986 provided exceptions for the sale of mailing lists among charities and for the distribution of certain low-cost items which are used to solicit charitable contributions. Other exceptions to UBIT have been periodically proposed, such as for all games of chance and the operation of a lawyer referral service by a state or local bar association.

DIFFICULTY IN ADMINISTERING THE UBIT

IRS officials stated that the UBIT is often difficult to administer because of the individual circumstances which must be considered to determine whether an activity is substantially related to an exempt purpose. According to IRS officials, there are no concrete rules for determining the relatedness of income-producing or commercial activity to the exempt purpose of an organization. All facts and circumstances regarding the activity must be considered in relation to the nature and extent of the exempt function. For example, IRS initially ruled that veterinary services offered for a fee by a particular humane society was an ordinary commercial activity which had no causal relationship to the society's exempt purpose to prevent cruelty to animals and was a subject to the UBIT. Subsequently, IRS determined that the veterinary services offered for a fee by a humane society was related to the organization's exempt purpose and was not subject to the UBIT. In the former case, IRS determined that the fee-for-service activity was a substantial part of the organization's activity. In contrast, IRS determined that in the latter case, the organization had maintained a proper balance between its fee-for-service activities and the exempt purpose, and did not aggressively promote the activities conducted for a fee.

IRS officials said that another UBIT administration problem is that once an activity is determined to be unrelated to the exempt purpose and therefore subject to UBIT, it is sometimes difficult to account for the revenue and expenses associated with the unrelated activity. For example, when a tax-exempt research organization conducts various types of research, some being tax-exempt and some being subject to UBIT, it can be difficult to determine the amount of income and expenses attributable to each of these activities.

OTHER ACTIONS TAKEN ON THE COMPETITION ISSUE

In response to the concerns of taxable business representatives, some federal agencies and state and local governments have taken actions to address the issue of tax-exempt organizations engaging in competitive income-producing or commercial activities. The federal agencies have addressed this issue by modifying policies and regulations. The Business Coalition for Fair Competition reported that 18 states had assembled task forces to study the competition issue. Also, at the state and local level the competition issue is being addressed through the courts and administrative rulings. The taxable business and tax-exempt communities are also attempting to address the issue. The following examples illustrate some actions being taken to address the competition issue:

-- Representatives of private for-profit research companies complained to the National Science Foundation (NSF) about universities and colleges offering competitive commercial research and testing services using NSF-supported facilities and equipment. In response to these concerns, NSF issued a policy (1983) stating it is contrary to NSF's intent for grantees to provide services for a fee using NSF-supported research equipment when private companies provide equivalent services.

-- Taxable business representatives cited the advantage accorded tax-exempt organizations which mail promotional literature at the reduced nonprofit rate for activities in competition with them. Postal regulations grant reduced rates to nonprofit organizations both organized and operated primarily for any one of eight categories--religious, educational, scientific, philanthropic, agricultural, labor, veteran, and fraternal. The Postal Rate Commission recommended to the Congress in June 1986 that only material related to an organization's exempt purpose, as defined by the UBIT law, be mailed at the reduced rates.

-- In 1984, Illinois enacted a law barring certain retail sales by state institutions of higher learning when such

sales could reasonably be expected to be a significant level of competition with private retail merchants in the community. The act specifically exempts items commonly sold by institutions, including, but not limited to, books, food, and beverages.

-- A 1981 Arizona law limited competitive activity by state agencies. For example, it generally prohibits community colleges and state universities from offering goods to the university community unless those goods provide a valuable educational experience to the students.

Other localities are dealing with the competition issue by questioning the exempt status of certain tax-exempt organizations. For example:

-- A Utah court held that two nonprofit hospitals were not entitled to a charitable tax exemption under state law because their property was not used exclusively for charitable purposes. In its opinion, the court noted that it was difficult to see significant differences between the operation of these hospitals and a nearby for-profit one.

-- In December 1985, an Oregon county tax assessor determined that too small a portion of a charitable organization's budget was dedicated to charitable activities and thus revoked its property tax exemption. The county acknowledged that an accurate and functional definition of "charity" must be determined by the state.

In addition to these actions by various levels of government, some taxable businesses and tax-exempt organizations have made efforts to address the competition issue. Representatives of the National Business Coalition for Fair Competition and the Grants and Contracts Project have met recently to identify competitive activities causing concern in an effort to foster cooperative relations between the two communities. Also, two universities which taxable business owners cited as a source of competition have initiated studies to determine how to limit the scope of their income-producing or commercial activities.

SUMMARY

In 1950, the Congress enacted the UBIT to prevent unfair competition between taxable businesses and tax-exempt organizations with respect to commercial activities unrelated to an exempt purpose. However, if income is derived from an activity related to the exempt purpose, it is not subject to UBIT regardless of the competitive nature of the activity. IRS officials said that the relatedness criterion often makes the UBIT difficult to administer because there are no concrete rules for

determining relatedness of income-producing or commercial activities to an organization's exempt purpose.

In response to concerns of representatives from taxable businesses, other federal agencies and state and local governments have taken action to address the competition issue. Federal actions included modifying an existing policy regarding the use of government-supported services by tax-exempt organizations. At the state and local level, the competition issue is being addressed through legislation, the courts, administrative rulings, and task force studies. In addition, representatives of the taxable business and tax-exempt communities are examining their activities in response to heightened awareness of the competition issue.

SECTION 4

VIEWS AND OBSERVATIONS ON THE COMPETITION ISSUE OF REPRESENTATIVES OF TAXABLE BUSINESSES AND TAX-EXEMPT ORGANIZATIONS

As taxable businesses and tax-exempt organizations increasingly provide similar services, the issue of competition becomes a source of increasing concern to both communities. Representatives of taxable businesses believe that the income-producing or commercial activity of tax-exempt organizations exceeds the traditional role of these organizations, and that these organizations are afforded a competitive advantage by virtue of their tax-exempt status and other benefits. Representatives of tax-exempt organizations, on the other hand, believe that their income-producing or commercial activity furthers their exempt purposes and is important to generate needed additional revenue to fund their activities. Further, they believe that competition is the result of taxable businesses increasingly entering traditional tax-exempt activities.

Available data on the competition issue is very limited. In an attempt to provide more perspective on this issue, we solicited the views, via a questionnaire, of various representatives of individual taxable businesses within six industries. Some representatives within these industries seemed to voice the most concern about the competition issue and we wanted to determine whether the concerns were localized or industrywide. We also discussed this issue with representatives from associations within the Business Coalition for Fair Competition and officials from national groups representing various types of tax-exempt organizations.

THE COMPETITION ISSUE

Although certain tax-exempt organizations and governmental entities have historically engaged in income-producing or commercial activity that competed with various businesses, evidence indicates that more tax-exempt organizations are now engaging in such activity. On the other hand, taxable businesses have recently begun operating in areas that were traditionally considered as tax-exempt. Consequently, the issue of competition has become an increasing concern to both communities. Representatives of the two communities, however, view the competition issue differently.

In its 1984 report, Unfair Competition by Nonprofit Organizations with Small Business: An Issue for the 1980s, the SBA reported that nonprofit firms, particularly what it terms

commercial nonprofits, are competing in many areas with for-profit firms. Commercial nonprofits, as defined by SBA, are those nonprofits that receive few donations and charge prices for goods or services provided, as opposed to what it calls charitable organizations which rely primarily on gifts and contributions. The SBA questions whether commercial nonprofits should be granted tax-exempt status, particularly in those cases where a nonprofit organization offers goods and services in direct competition with for-profit firms.

In 1983, taxable business representatives formed the Business Coalition for Fair Competition to focus national attention on the impact nonprofit organizations' income-producing or commercial activity has on for-profit businesses. Similar coalitions have been organized on a local level throughout the country to focus attention on the competition issue. These groups contend that the traditional justifications for granting tax-exempt status to nonprofits should be questioned when they compete in the same income-producing or commercial activities as taxable businesses. The competition issue was also an agenda item at the August 1986 White House Conference on Small Business. The conference recommended that tax-exempt organizations be prohibited from using their tax-exempt status when competing with taxable businesses.

Various groups representing segments of the nonprofit community have also expressed concern about the issue of competition between taxable businesses and tax-exempt organizations. A report by the National Assembly of Voluntary Health and Welfare Organizations in 1985 acknowledged that while competition between the two communities is not new, it appears to be escalating. The report noted that this escalation raises questions as to whether there is a place for both communities in an increasingly competitive environment. The report further notes that the competition issue is much more complex than current discussion indicates. For example, the tax-exempt community believes increased competition is the result, to a large extent, of the entry of taxable businesses into traditional tax-exempt areas such as day care, health care, and family counseling areas. Representatives of the Grants and Contract Project, also noting this trend, pointed out that a tax-exempt organization should not lose its exempt status because a taxable business conducts the same activity for a profit.

Despite the growing concern about the competition issue, available information has largely been fragmented and compiled on an informal basis. Because of the limited data available on the subject, we solicited the views of representatives of selected taxable businesses and tax-exempt organizations to get more perspective on the competition issue.

VIEWS AND OBSERVATIONS FROM REPRESENTATIVES OF TAXABLE BUSINESSES

Representatives from different Business Coalition for Fair Competition industry groups and individual businesses have varying opinions regarding the competition issue. This possibly results from the variances in the extent and nature of competition perceived by various industries.

As shown in table 4.1, the extent of competition reported by questionnaire respondents varied significantly by industry. (We did not attempt to verify the perceptions of any respondents, but merely present their views). The research and racquet sports industries report experiencing more competition from tax-exempt organizations than any of the other industries in our questionnaire sample. On the basis of our questionnaire data, we project that about 84 percent of 215 research businesses and 90 percent of 462 racquet sports businesses appear to be experiencing competition from 1 or more tax-exempt organizations.[3] In contrast, we project that out of a universe of 7,349 travel agents, about 4,016, or 55 percent, appear to have no tax-exempt competitors. Similarly, 16, or 57 percent, of the 28 tour industry respondents appear to have no tax-exempt competitors.[4]

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[3]Throughout this report, the projected number of responses are the estimated number from the universe that would respond to a particular question. This estimate takes into consideration nonreponses to individual questions.

[4]While both the travel and tour businesses were represented by one industry association, we solicited their views separately because of the varying nature of their activity. The tour industry represents excursion operators, while the travel industry consists of travel agents who arrange for individual and business travel. The 28 representatives of the tour industry that responded to this question represent businesses that have nationwide operations.

Table 4.1:
Number of Perceived Tax-Exempt Competitors by Businesses Within Selected Industries[a]

Industry	Projected respondents	No competitors number	No competitors percent	One competitor number	One competitor percent	More than one competitor number	More than one competitor percent	Top three types of tax-exempt competitors[b] organizations	Top three types of tax-exempt competitors[b] percentage of respondents
Audio-visual	356	128	36	25	7	203	57	University or college — public Government — state or local University or college — private	63 52 43
Racquet sports	462	47	10	89	19	326	71	YM/YWCA or YM/YWHA Recreation/health/sports/fitness club Hospital	85 65 41
Research and testing	215	34	16	4	2	177	82	University or college — public Government — state or local Research organization	79 60 56
Tour	28	16	57	1	6	11	39	Religious organizations University or college — public Business or professional association	60 56 55
Travel agent	7,349	4,016	55	472	6	2,861	39	Religious organizations University or college — public Social/fraternal organization	67 63 60
Veterinarian	18,444	7,191	39	3,733	20	7,520	41	Humane or animal welfare organization Government — state or local University or college — public	60 24 15

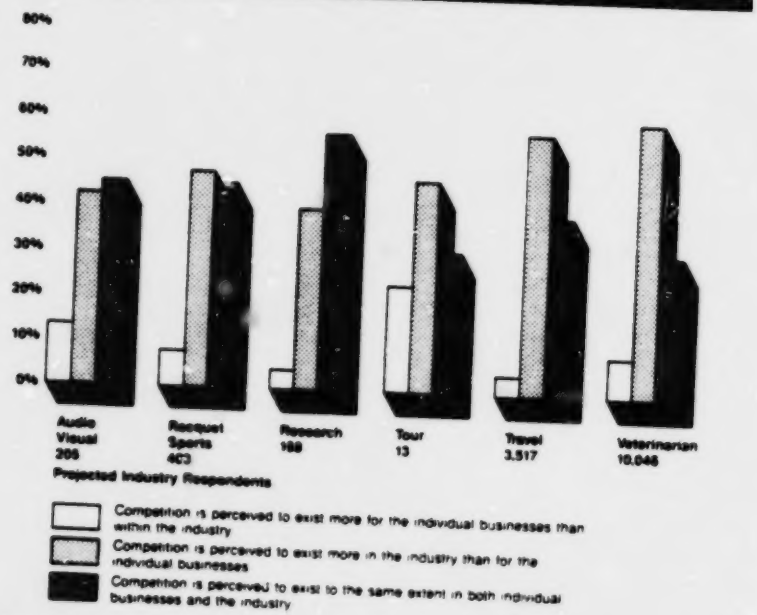
Source: GAO questionnaire data.

[a]Percentages have been rounded to the nearest whole number.

[b]Types of tax-exempt organizations perceived to compete to a moderate, great, or very great extent with questionnaire respondents over the past 6 years (1980 - 1985).

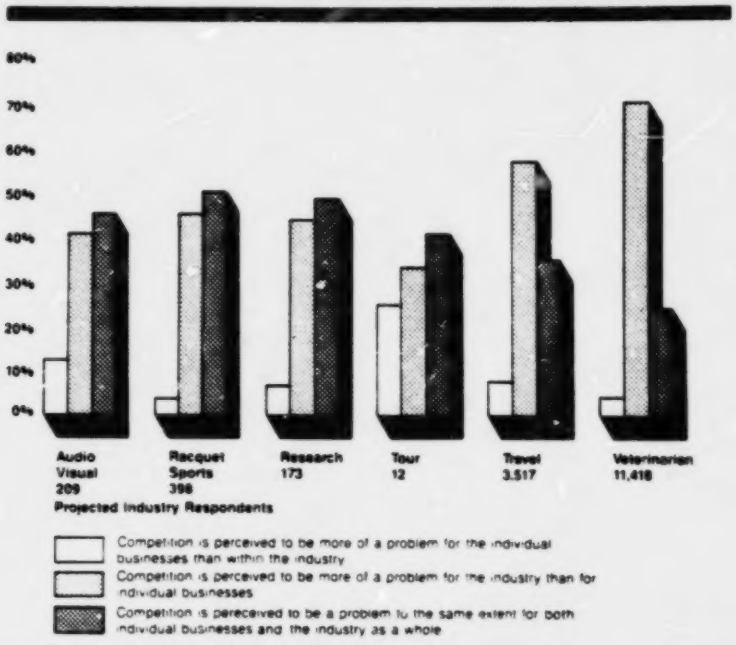
Many respondents reported that competition existed and was a problem to at least a moderate extent for either their industry or individual businesses. Our questionnaire data also showed, however, that a substantial number of these respondents believed that competition exists more within their industry than for their individual businesses (see figure 4.1), and that competition is more of a problem for their industry than for their businesses (see figure 4.2). In addition, as shown in figures 4.1 and 4.2, many of these respondents reported that competition existed and was a problem to the same extent in both their industry and individual businesses. Also, over half of the respondents who reported that they were experiencing competition believed that it was increasing (see figure 4.3).

Figure 4.1: Comparison of the Extent Competition Is Perceived to Exist Between Tax-Exempt Organizations and Taxable Businesses Within Selected Industries



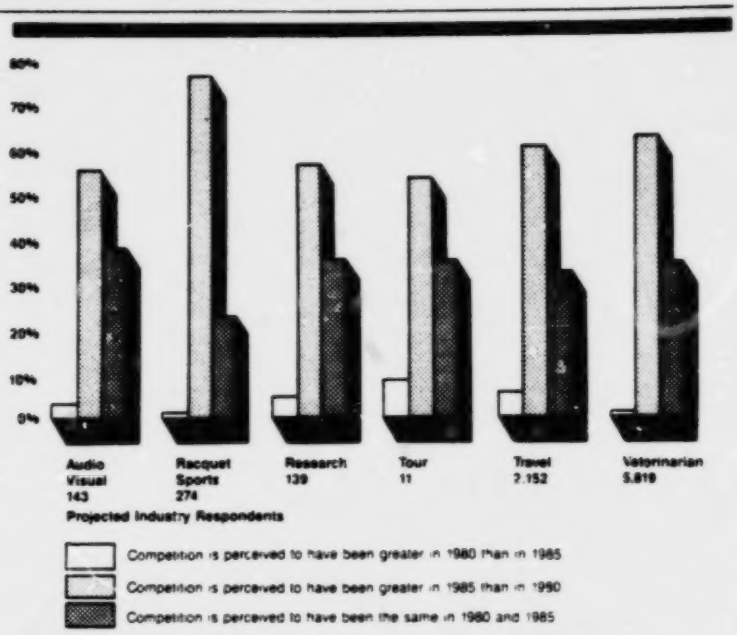
Note: All respondents included in this figure responded that competition existed at least to a moderate extent in either their individual businesses or the industry.

Figure 4.2: Comparison of the Extent Competition From Tax-Exempt Organizations Is Perceived to be a Problem for Taxable Businesses Within Selected Industries


80%
70%
60%
50%
40%
30%
20%
10%
0%
Audio Visual 209
Racquet Sports 398
Research 173
Tour 12
Travel 3,517
Veterinarian 11,418
Projected Industry Respondents
Competition is perceived to be more of a problem for the individual businesses than within the industry
Competition is perceived to be more of a problem for the industry than for individual businesses
Competition is perceived to be a problem to the same extent for both individual businesses and the industry as a whole

Note: All respondents included in this figure responded that competition was at least a moderate problem in either their individual businesses or the industry.

Figure 4.3: Comparison of the Extent Competition Is Perceived to Have Increased or Decreased From 1980 to 1985 Between Tax-Exempt Organizations and Taxable Businesses in Selected Industries



Note: All respondents included in this figure reported experiencing competition at least at a moderate level in 1980 or 1985.

Generalizations about the type of tax-exempt organizations that compete with taxable businesses cannot be made because the types of perceived competitors vary by industry. Representatives of taxable businesses in the six industries we surveyed cited competition from both tax-exempt organizations and governmental entities. They cited the following examples as the types of competition they are experiencing:

-- Universities, colleges, and other governmental entities are offering scientific and public safety research and analytical services for a fee.

-- Certain charitable organizations and public recreation agencies are offering health club and fitness facilities to the general public at competitive rates.

-- Some nonprofit humane societies are providing full-scale veterinary services to the general public for a fee.

-- Educational, religious, and member-oriented organizations are promoting travel packages and tour programs for the general public.

-- Educational organizations and governmental entities are offering audio-visual and education-related products to the public.

Representatives of the taxable business community said that tax-exempt organizations have an advantage when competing with taxable businesses. These representatives cited the following as contributing to this advantage: certain exemptions from federal, state, and local taxes; the availability of grants and tax-exempt facilities; reduced mailing rates; volunteer labor; and the erroneous belief of some taxpayers that amounts remitted to tax-exempt organizations for goods or services are fully deductible as charitable contributions. The extent to which these various factors are considered to contribute to an advantage varied among the six industries we surveyed. For example, analysis of our questionnaire data shows that subsidy through government grants and facilities was seen as contributing to an advantage to a moderate, great, or very great extent by 89 percent of the 177 projected research businesses experiencing competition, and 47 percent of the 10,540 projected veterinarians experiencing competition.

In addition to surveying these six industries, we also discussed competition issues with representatives of 18 Business Coalition for Fair Competition member associations to which a questionnaire was not sent (see app. VII for a list of these associations). These discussions disclosed that taxable businesses within these industries also perceive competition from tax-exempt organizations to varying degrees and in differing

ways. These representatives also said that such competition is an increasing concern to them. In general, representatives of taxable businesses regard the mission of tax-exempt organizations as serving needs not otherwise met. They believe that UBIT should be amended to restrict competition from tax-exempt organizations and that UBIT is now too ambiguous and contains too many exceptions to achieve that purpose.

The taxable business community has offered various proposals to revise federal statutes and regulations relating to tax-exempt organizations' income-producing or commercial activity and the issue of competition. The proposals range from prohibition of competitive income-producing or commercial activity to establishment of disincentives for such activity. During our review, we identified the following proposals that were suggested by the taxable business community:

-- Establish, at the federal level, more accurate data collection systems for tax-exempt organizations' activities.

-- Establish for-profit subsidiaries to conduct the commercial activities of tax-exempt organizations.

-- Deny tax-exempt status to organizations which realize significant income from commercial activities, compete directly with commercial organizations, and utilize commercial methods of operation.

-- Establish an allowable parameter for UBI, such as a percent of total operating revenue which, when exceeded, would result in loss of tax-exempt status.

-- Impose the highest marginal corporate tax rate on all income subject to UBIT. This would be a deterrent to operation of an unrelated activity.

-- Establish competition as a criterion for determining the applicability of UBIT.

-- Eliminate or restrict various exemptions that currently exist under UBIT law, such as the exemption of income from activities provided for members' convenience (IRC section 513(a)(2)); the exemption of income from research by a college, university, or hospital (IRC section 512(b)(8)); or research for the government (IRC section 512(b)(7)).

-- Revise the regulations pertaining to the determination of what constitutes a substantially related business (Regulation 1.513-1(d)). The current regulations are viewed as ambiguous and difficult to apply.

-- Adopt on a governmentwide basis the principles of the NSF policy statement which restricts the use of NSF-funded equipment for competitive commercial purposes.

-- Adopt procedures to consider tax consequences when awarding government contracts to tax-exempt organizations.

VIEWS AND OBSERVATIONS FROM REPRESENTATIVES OF TAX-EXEMPT ORGANIZATIONS

Representatives of national groups representing the tax-exempt community with whom we discussed the competition issue recognize that competition, while not new, appears to be increasing. They also recognize that the competition issue is becoming an increasing concern to both the taxable business and tax-exempt communities. However, the views of those representatives differ from those of their taxable business counterparts (see app. IX for a list of these national groups).

Representatives of the tax-exempt community view their income-producing or commercial activities as important, in some cases, as an expansion of their exempt activities, and in others, as a source of funds to further their exempt purposes. They do not view such activities as a deviation from their exempt purposes. Faced with reductions in donated and government funds, some organizations turned to charging or increasing fees for their services to help finance their exempt purposes and meet the increased demand from the community for their services. Representatives of the Grants and Contract Project said that these fees enable the organizations to provide their services to meet needs on a broader scale than would otherwise be possible. They also said that engaging in related income-producing or commercial activity and charging fees for goods and services should not affect their tax-exempt status. For example, representatives of the YMCA of the USA point out that YMCAs have provided health fitness services since the late 1800s and that their tax-exempt status should not be affected because they increased their fees for these services to further their overall exempt purpose. They also said that their services should not be available only to those who cannot afford similar services offered by taxable health and recreation businesses because health fitness activities provide a benefit to the entire community. Also, humane society representatives stated that the inclusion of veterinarian services for fees furthers their exempt purpose to prevent cruelty and suffering of animals and therefore their tax-exempt status should not be affected.

While representatives of the tax-exempt community acknowledge that tax-exempt organizations are expanding their income-producing or commercial activities, some do not view these

activities as actually representing competition. For example, representatives of one nonprofit organization which sponsors tours in cooperation with for-profit tour operators believe their activity, which is focused on the special interests and loyalty of their constituency, creates interest in travel which may not otherwise occur.

Many representatives of the tax-exempt community view competition as more of a result of the entry of taxable businesses into traditional tax-exempt areas rather than an increase in income-producing or commercial activity by tax-exempt organizations. Responses to our questionnaire from certain industries also indicate the relatively recent entry of some taxable business respondents into activities competing with tax-exempt organizations. For example, we project from questionnaire responses that 94 percent of 459 racquet sports businesses and 42 percent of 215 research and testing businesses established their activities after 1970. Both the Independent Sector and the Grants and Contracts Project attribute this trend, in part, to the availability of third party and government funding for social services which made it profitable for taxable businesses to operate in traditional tax-exempt areas. These representatives cited for-profit businesses entering the areas of day care, hospital services, and family counseling as indications of this trend.

While representatives of the Grants and Contract Project would not favor prohibiting the entry of taxable businesses into traditional tax-exempt areas, they do not believe that their organizations should lose their tax-exempt status merely because a taxable business desires to engage in the same activity. Furthermore, these representatives do not believe that the public service basis for exemption of activity performed by tax-exempt organizations is lessened when a taxable business conducts the same activities. They maintain that there is a difference in the nature and mission of tax-exempt organizations which justifies tax exemption.

Representatives of the tax-exempt community also voiced concern over the use of the term "commercial" to describe fee-for-service activities of nonprofit organizations. They pointed out that dictionary definitions of "commercial" imply that a commercial activity is one that is being carried on for the chief purpose of making a profit. According to these representatives, nonprofit human service organizations exist under current law to provide needed services, not to make a profit. They said that any surplus earned over and above expenses is used to provide additional services, not to pay dividends to shareholders.

Representatives of the tax-exempt community also pointed out that advantages have been accorded taxable business which are not available to the tax-exempt community. Among these advantages

are government contracts designated solely for small businesses (set-asides), tax credits, loan guarantees, and access to capital through stock issuance. For example, according to some representatives, tax-exempt organizations were excluded from consideration for small business set-asides in the area of government human service contracts. The National Assembly of Voluntary Health and Welfare Organizations notes that in addition to the need for better data on the issue of competition, more careful analysis of these advantages should be made to determine whether either community has, and to what extent, a competitive advantage.

The following actions have been recommended by the tax-exempt community to address the competition issue:

-- IRS and national tax-exempt organizations should provide more information to tax-exempt organizations on UBIT requirements to avoid misunderstandings and incorrect returns.

-- Better information should be developed to aid in determining the extent and impact of competition between the communities.

-- Greater cooperative efforts should be fostered among the taxable businesses and tax-exempt organizations to complement the services that each provides.

SUMMARY

Competition between tax-exempt organizations and taxable businesses has become an issue of increasing concern to both communities. Despite this concern, however, available data on the issue is limited.

Responses to a questionnaire we sent to representatives in six industries indicated that the extent of competition is perceived differently in each industry. For example, racquet sports and research businesses perceive more competition from tax-exempt organizations than do travel and tour businesses. Over half of the respondents in all six industries who reported experiencing competition believe it was increasing. Business representatives perceive a disadvantage when they compete with tax-exempt organizations' income-producing or commercial activities because such organizations enjoy certain tax and other benefits. They also believe that the UBIT does not adequately address the competition issue.

Various representatives of the tax-exempt community recognize that competition, while not new, appears to be increasing. They also recognize that the competition issue is becoming an increasing concern to both the taxable business and

tax-exempt communities. In an effort to overcome reductions in traditional and government funding, and because of increased demand for services, some tax-exempt organizations are expanding their income-producing or commercial activities. They view the expansion of these activities as important to further their tax-exempt purpose and not as a deviation from the purpose. These representatives also emphasize that a major reason for the increase in competition is the entry of taxable business into traditional tax-exempt areas. They further believe that the UBIT is a proper framework for determining the taxable income of tax-exempt organizations.

Various proposals have been made by both communities to resolve the competition issue. These proposals range from denying tax-exempt status for competing commercial activities to fostering greater cooperative efforts between the two communities. The two communities recognize the need for better data in this area and are cooperating to better define the issue of competition.

TYPES OF TAX-EXEMPT ORGANIZATIONS UNDER INTERNAL REVENUE CODE SECTION 501(c)

Section 501(c) category	Types of tax-exempt organizations
(1)	Corporations organized under an Act of Congress and operated as an instrumentality of the United States, for example, Federal Deposit Insurance Corporation.
(2)	Title holding corporations organized to hold title to property of an exempt organization, collect the income, and deliver the net proceeds to the exempt organization.
(3)	Entities organized and operated exclusively for religious and charitable, scientific, testing for public safety, literacy, or educational purposes, or for the prevention of cruelty to children or animals, or to foster amateur sports.
(4)	Civic leagues or organizations operated exclusively for the promotion of social welfare or local associations of employees (earnings devoted to charitable, educational, or recreational purposes).
(5)	Labor, agricultural, and horticultural organizations organized to provide education and instruction on improving working conditions and products.
(6)	Business leagues, chambers of commerce, real estate boards, and professional football leagues

organized to improve business conditions.

(7) Clubs organized for pleasure and recreational purposes.

(8) Fraternal beneficiary societies and associations organized to provide for the payment of life, sickness, accident, or other benefits to members and operated under a framework of self-governing branches chartered by a parent organization.

(9) Voluntary employee beneficiary association providing for payment of life, sickness, accident or other benefits to members of the association.

(10) Domestic fraternal societies and associations operated exclusively for social, educational, religious, scientific, charitable, and fraternal purposes under a framework of self-governing branches chartered by a parent organization.

(11) Teachers' retirement fund associations organized on a local basis.

(12) Benevolent life insurance associations; mutual companies, such as electric, irrigation, and cooperative companies organized on a local basis.

(13) Cemetery companies owned and operated for the benefit of their members and not operated for profit.

(14) Nonprofit credit unions and mutual reserve funds providing loans to members and reserve funds for

APPENDIX I

domestic building and loan associations, cooperative banks and mutual savings banks, (mutuals must have been organized before 9/1/57).

(15) Mutual insurance companies or associations, with gross receipts not more than $150,000, providing insurance to members (other than life or marine companies).

(16) Cooperative organizations established to finance crop operations.

(17) A trust or trusts providing for the payment of supplemental unemployment benefits.

(18) A trust providing for the payment of benefits under a pension plan funded by employees, created prior to 6/25/59.

(19) A post or organization promoting the welfare of past or present members of the Armed Forces.

(20) An organization or trust providing legal services as part of a qualified group legal services plan.

(21) A trust or trusts organized to meet black lung disability and liability claims.

(22) Pension plan withdrawal liability trust created to provide funds to meet payments under section 4223(c) or (h) of the Employee Retirement Income Security Act of 1974.

(23) Veterans' insurance associations created to provide insurance and other benefits to member veterans.

APPENDIX I

(24)	Trusts described in section 4049 of the Employee Retirement Income Security Act of 1974.
(25)	Title-holding companies with 35 or fewer entities exempt under IRC section 401 and 501(c)(3) and governmental units.

NUMBER AND GROWTH OF TAX-EXEMPT ORGANIZATIONS

FOR FISCAL YEARS 1968, 1978, 1985

Section 501(c)	9/30/68 Number of organizations	9/30/68 Percent[a] of total	9/30/78 Number of organizations	9/30/78 Percent of total	9/30/85 Number of organizations	9/30/85 Percent of total	Amount of change 1968 to 1978	Amount of change 1978 to 1985
(1)	961		25		24		<936>[b]	<1>
(2)	3,992	1	5,272	1	5,758	1	1,280	486
(3)	137,487	34	293,947	36	366,071	43	156,460	72,124
(4)	104,546	26	125,317	16	131,250	15	20,771	5,933
(5)	77,737	19	87,531	11	75,632	9	9,794	<11,899>
(6)	27,594	7	45,325	6	54,217	6	17,731	8,892
(7)	36,189	9	49,964	6	57,343	7	13,775	7,379
(8)	989		140,963	17	94,435	11	139,974	<46,528>
(9)	4,330	1	6,827	1	10,668	1	2,497	3,841
(10)	467		12,199	2	15,924	2	11,732	3,725
(11)	14		11		11		<3>	0
(12)	4,211	1	4,863	1	5,244	1	652	381
(13)	3,809	1	5,529	1	7,239	1	1,720	1,710
(14)	5,022	1	5,118	1	6,032	1	96	914
(15)	1,728		1,408		967		<320>	<441>
(16)	39		28		18		<11>	<10>
(17)	674		807		726		133	<81>
(18)[c]			4		3		4	<1>
(19)			21,233	3	23,062	3	21,233	1,829
(20)			4		167		4	163
(21)[d]					15			15
(22)								
(23)								
(24)[e]								
(25)								
Total	409,769	100	806,375	102[f]	854,806	101[f]	396,586	48,431

[a]If no percent figure is shown, the number represents less than 1 percent.

[b]Change is due to reclassification of many organizations initially categorized as section 501(c)(1).

[c]Section 501(c)(18) through (20) categories were enacted after 1968.

[d]Section 501(c)(21) through (23) categories were enacted after 1977.

[e]Section 501(c)(24) and (25) categories were enacted in 1986.

[f]Percent column does not add to 100 due to rounding.

Source: IRS exempt organization master file data.

APPENDIX II

PRIMARY ACTIVITY REPORTED BY TAX-EXEMPT ORGANIZATIONS AS OF MAY 1986[a]

Primary activity	Number of organizations
Religious	
Churches	34,394
Conventions	633
Orders	315
Auxiliary	1,302
Mission	713
Missionary	2,131
Evangelism	4,465
Publishing	669
Other	13,882
SUBTOTAL	58,504
Schools, Colleges	
School, colleges, etc.	8,480
Special	1,224
Nursery	3,637
Faculty	359
Alumni association	3,613
PTA	5,103
Fraternity	52,176
Other student groups	457
Athletic association	442
Scholarships (children of employees)	246
Scholarships	11,060
Student loans	339
Student housing	292
Other student aid	255
Student exchange	261
Student operated business	80
Private school	9,493
Other related activities	89,884
SUBTOTAL	187,401

Primary activity	Number of organizations
Cultural & Historical Activities	
Museum, zoo, etc.	3,392
Library	2,900
Historical site	3,940
Monument	168
Commemorative event	1,442
Fair	4,123
Community theatrical group	2,778
Singing	1,063
Cultural performance	5,227
Art exhibit	1,019
Literary	846
Cultural exchanges	431
Genealogical	815
Other cultural	11,568
SUBTOTAL	39,712
Other Instructional	
Publishing	1,931
Broadcasting	616
Films	276
Discussion groups	7,785
Study & research	1,428
Giving opinion	1,417
Apprentice training	600
Other training	4,427
SUBTOTAL	18,480

Primary activity	Number of organizations
Health Services	
Hospital	6,059
Hospital auxiliary	1,244
Nursing home	509
Care & housing for the aged	1,147
Health clinic	2,352
Rural facility	281
Blood bank	73
Cooperative hospital	175
Rescue & emergency	2,871
Nurses' bureau	65
Aid to the handicapped	8,977
Scientific research	10,500
Other medical research	452
Health insurance	357
Health plan	224
Community health planning	885
Mental health care	1,614
Group medical practice	65
In-faculty practice	48
Hospital facilities	61
Other	5,670
SUBTOTAL	43,629
Scientific Research	
Research for industry	263
Research for government	281
Other	1,074
SUBTOTAL	1,618

[a]Activity represents the primary purpose or activity reported by tax-exempt organizations to IRS at the time of application for exempt status.

APPENDIX III

Primary activity	Number of organizations
Business & Professional Organizations	
Business promotion	17,398
Real estate	1,467
Board of trade	149
Regulating	78
Better business bureau	34
Professional association	18,223
Professional auxiliary	170
Industry trade shows	76
Convention display	20
Research	128
Professional athlethic league	25
Municipal insurance	3,799
Assigned risk	34
Tourist bureau	79
Other business	1,512
SUBTOTAL	43,192
Farming & Related	
Farming	2,599
Farm bureau	193
Agriculture group	748
Horticulture	185
Farmers' coop purchasing	125
Financing crop	6
Dairy herd improvement	70
Breeders association	300
Other farming	246
SUBTOTAL	4,472

Primary activity	Number of organizations
Mutual Organizations	
Mutual ditch electric, etc.	1,157
Credit union	858
Reserve funds	
Mutual insurance	4
organizations	68
Corporation organized under an act of Congress	129
Other mutual organizations	144
SUBTOTAL	2,360
Employee or Membership Benefit Organizations	
Fraternal	4,681
Improvement of conditions	2,839
Municipal employees	424
Employees' associations	54,143
Employee or member welfare	9,738
Sick, accident, benefits	8,576
Strike benefits	13
Unemployment benefits	724
Pension or retirement	523
Vacation benefits	315
Other benefits	26,965
SUBTOTAL	108,941

Primary activity	Number of organizations
Sports, Athletic, Recreational & Social	
Country club	2,330
Hobby club	3,227
Dinner club	229
Variety club	159
Dog club	463
Womens' club	1,415
Hunting or fishing	1,052
Swimming or tennis	999
Other sports clubs	3,964
Community center	1,492
Recreational facility	1,343
Training in sports	3,054
Travel tours	281
Amateur athletic	1,237
Fund raising	382
Other sports activities	2,831
Other recreational activities	10,302
Other social activities	24,399
SUBTOTAL	59,159
Youth activities	
Boy scouts, etc.	362
Little league, etc.	2,938
4-H club, etc.	121
Key club	15
YMCA, etc.	1,233
Camp	4,070
Care & housing	1,058
Prevention of cruelty to children	582
Juvenile delinquency	4,473
Other youth activities	4,777
SUBTOTAL	19,629

APPENDIX III

Primary activity	Number of Organizations
Conservation, Environmental & Beautification	
Preservation	4,241
Combatting pollution	295
Land acquisition	153
Soil or water conservation	103
Preservation of scenic beauty	210
Wildlife sanctuary	196
Garden club	1,167
Other	723
SUBTOTAL	7,088
Housing Activities	
Low income housing	1,393
Low & moderate income housing	1,146
Housing for the aged	4,453
Housing instruction	288
Other	4,949
SUBTOTAL	12,229
Inner City or Community Activity	
Area development	1,444
Homeowners' association	1,216
Combatting deterioration	4,097
Attracting industry	1,574
Community promotion	937
Minority business grants/loans	88
Crime prevention	687
Voluntary firemen	4,591
Community service	5,717
Other	1,061
SUBTOTAL	21,412

Primary activity	Number of organizations
Civil Rights	
Defense of civil rights	1,429
Elimination of discrimination	370
Lessen neighborhood tension	46
Other	43
SUBTOTAL	1,888
Litigation & Legal Aid	
Public interest	172
Other litigation	46
Legal aid	347
Providing bail	8
Plan under IRC Section 120	58
SUBTOTAL	631
Advocacy	
Attempt to influence public opinion concerning:	
Firearms control	15
Selective service	2
National defense	66
Weapons system	15
Government spending	56
Taxes or exemption	69
Separation of church & state	4
Government aid to parochial school	1
U.S. foreign policy	19
U.S. military involvement	19
Pacificism & peace	5,131
Economic-political system	36
Anti-communism	8
Right to work	14
Zoning	41

Primary activity	Number of organizations
Highway or transportation	29
Rights of criminal defendants	19
Capital punishment	8
Stricter law enforcement	49
Conservation	151
Protection of consumer interest	70
Medical care system	80
Welfare system	33
Urban renewal	8
Busing students	5
Racial integration	3
Use of intoxicating beverages	175
Use of drugs or narcotics	85
Use of tobacco	457
Prohibition of erotica	16
Sex education	8
Population control	25
Birth control methods	28
Legalized abortion	197
Other	378
SUBTOTAL	7,320
Other Activities Directed to Individuals	
Supplying money & goods to the poor	3,637
Individual gifts	3,317
Marriage counseling	355
Other loans to individuals	47
Family planning	304
Credit assistance	57
Job counseling	2,691

APPENDIX III

Primary activity	Number of organizations
Draft counseling	10
Vocational counseling	88
Referral service	936
Rehabilitating convicts	377
Rehabilitating programs	1,719
Day care	1,748
Services for the aged	6,015
Other	9
SUBTOTAL	21,310
Legislative & Political	
Legislative activities	1,911
Voter information	152
Voter education	497
Political candidacy	1
Political campaign	2
Other	74
SUBTOTAL	2,637
Activities Directed to Other Organizations	
Community chest	3,046
Booster club	1,048
Gifts, grants, loans	33,700
Nonfinancial services	1,007
Other	72
SUBTOTAL	38,873
Other purposes & Activities	
Cemetery	6,880
Perpetual care	1,183
Emergency fund	605
Community trust	125
Government	447
Testing products	693
Consumer interest	116
Veterans	25,107
Patriotic	8,005
IRC section 4947(a)(1) trust	261
Domestic organization with activity outside U.S.	75
Foreign organization	1,369
Title holding corporations	1,562
Prevention of cruelty to animals	1,181
Achievement awards	222
Erection of public building	399
Food service	767
Thrift shops	272
Book or supply store	268
Advertising	593
Loans or credit reporting	2,348
Endowment fund	6,249
Indians	220
Traffic or tariff	61
Fund raising	4,350
IRC section 4947(a)(2) trust	41
Prepaid legal services	11
In process	17,816
Other	12,063
SUBTOTAL	93,289
Not specified	8,210
TOTAL	801,984

Source: IRS Exempt Organization master file data.

APPENDIX III

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APPENDIX IV

AMOUNT AND PERCENT OF RECEIPTS BY ACTIVITY AND RECEIPT SOURCE FOR TAX-EXEMPT ORGANIZATIONS IN THE 1975 SOI STUDY a/

	Receipt Source					
	Dues, Assessments		Contributions		Business Receipts	
Activity	Receipts ($ 000)	Percent of total activity receipts	Receipts ($ 000)	Percent of total activity receipts	Receipts ($ 000)	Percent of total activity receipts
Religious	$43,118	3%	$565,771	46%	$375,700	30%
Schools & Colleges	430,496	2%	5,280,112	28%	5,677,702	30%
Cultural & Historical	83,823	4%	674,661	31%	547,204	25%
Other Instructional	298,579	21%	522,841	37%	301,667	21%
Health-Related Services	7,773,844	19%	3,117,201	8%	22,947,692	56%
Scientific Research	156,749	11%	470,674	32%	643,521	43%
Business & Professional	1,676,708	54%	163,399	5%	555,281	18%
Farming & Related	122,041	38%	14,277	4%	141,825	44%
Mutual Organizations	167,872	4%	35,056	1%	2,653,363	71%
Employee or Membership Benefit	4,660,667	36%	1,778,858	14%	1,419,699	11%
Sports, Athletic, Recreational & Social	821,088	40%	140,416	7%	933,275	45%
Youth	189,823	11%	698,049	41%	377,616	22%
Conservation & Environmental	37,338	16%	112,823	50%	29,212	13%
Housing	24,131	5%	104,538	21%	93,330	18%
Inner City or Community	91,421	10%	570,240	61%	154,081	16%
Civil Rights	12,835	16%	61,091	75%	2,729	3%
Litigation & Legal Aid	5,382	5%	94,639	86%	7,252	7%
Legislative & Political	15,777	52%	10,485	34%	3,022	10%
Advocacy	7,317	7%	61,108	60%	10,847	11%
Other Activities Directed to Individuals	23,174	1%	1,485,167	77%	200,620	10%
Other activities Directed to Organizations	44,152	2%	1,937,049	68%	66,838	2%
Other Purposes & Activities	94,069	6%	261,039	17%	574,023	38%
No Activity Reported	2,524,985	16%	2,342,611	15%	7,071,012	45%
Total Receipts	$19,305,390	17%	$20,518,184	18%	$44,787,518	39%

a/ Rows and columns may not add to the exact total figures due to rounding.

APPENDIX IV

Interest, Dividends Rents, Royalties		Gross Sales on Assets		Other Receipts		Total Activity Receipts
Receipts ($ 000)	Percent of total activity receipts	Receipts ($ 000)	Percent of total activity receipts	Receipts ($ 000)	Percent of total activity receipts	($ 000)
$62,679	5%	$110,077	9%	$74,845	6%	$1,232,198
808,320	4%	2,404,815	13%	4,434,930	23%	$19,044,375
135,634	6%	541,467	25%	201,792	9%	$2,184,581
40,479	3%	70,971	5%	172,301	12%	$1,406,838
728,660	2%	4,456,413	11%	2,270,455	5%	$41,294,345
34,994	2%	115,255	8%	67,790	5%	$1,488,983
92,445	3%	187,960	6%	444,953	14%	$3,120,746
23,411	7%	1,672	1%	20,323	6%	$323,549
701,705	19%	44,997	1%	142,283	4%	$3,745,276
695,097	5%	3,155,620	25%	1,152,504	9%	$12,862,445
42,252	2%	34,454	2%	103,399	5%	$2,074,884
83,203	5%	185,660	11%	175,372	10%	$1,709,723
8,090	4%	26,319	12%	13,901	6%	$227,683
210,578	42%	25,944	5%	46,818	9%	$505,339
50,096	5%	20,665	2%	59,836	6%	$954,339
868	1%	1,043	1%	2,639	3%	$81,205
621	1%	429	0%	1,275	1%	$109,598
639	2%	54	0%	560	2%	$30,537
2,654	3%	2,528	2%	16,744	17%	$101,198
28,383	1%	124,176	6%	62,049	3%	$1,923,569
169,628	6%	451,334	16%	177,830	6%	$2,846,831
265,109	17%	155,392	10%	166,777	11%	$1,516,409
830,291	5%	1,825,786	12%	1,206,604	8%	$15,801,289
$5,015,839	4%	$13,943,032	12%	$11,015,981	10%	$114,585,944

APPENDIX V

NUMBER AND PERCENT OF ORGANIZATIONS BY ACTIVITY AND RECEIPT SOURCE FOR TAX-EXEMPT ORGANIZATIONS IN THE 1975 SOI STUDY

	Receipt Source					
	Dues, Assessments		Contributions		Business Receipts	
Activities	Number of organizations	% of total organizations by activity	Number of organizations	% of total organizations by activity	Number of organizations	% of total organizations by activity
Religious	859	16%	4,686	88%	2,045	38%
Schools & Colleges	7,317	46%	9,710	61%	7,972	50%
Cultural & Historical	3,705	52%	5,802	81%	4,652	65%
Other Instruction	2,696	61%	2,664	60%	2,256	51%
Health-Related Services	3,961	29%	10,920	80%	8,534	63%
Scientific Research	279	49%	397	70%	294	51%
Business & Professional	10,405	91%	3,015	26%	5,053	44%
Farming & Related	2,006	88%	434	19%	1,499	65%
Mutual Organizations	1,054	31%	129	4%	2,056	61%
Employee or Membership Benefit	25,706	88%	8,394	29%	9,209	31%
Sports, Athletic, Recreational & Social	9,018	88%	3,122	30%	7,033	68%
Youth	3,111	49%	5,330	83%	3,721	58%
Conservation, Environmental	731	65%	736	66%	603	54%
Housing	193	11%	756	42%	527	29%
Inner City or Community	5,594	72%	4,368	56%	4,722	60%
Civil Rights	143	45%	303	96%	162	51%
Litigation & Legal Aid	30	10%	289	94%	55	18%
Legislative & Political	142	62%	76	33%	102	45%
Advocacy	218	42%	439	84%	220	42%
Other Activities Directed to Individuals	1,306	24%	4,751	88%	2,557	47%
Other Activities Directed to Organizations	912	20%	3,326	75%	749	17%
Other Purposes & Activities	4,326	59%	3,194	44%	4,965	68%
No Activity Reported	24,792	63%	16,272	41%	19,456	49%
Total Number of Organizations by Receipt Category b/	108,504	61%	89,113	50%	88,441	49%

a/ Row totals do not add because an organization could receive revenue from more than one source.

b/ Column activities may not add to the exact total figures due to rounding.

Interest, Dividends, Rents, or Royalties		Gross Sales on Assets		Other Receipts		Total organizations within each activity a/
Number of organizations	% of total organizations by activity	Number of organizations	% of total organizations by activity	Number of organizations	% of total organizations by activity	
2,498	47%	628	12%	1,543	29%	5,322
9,846	61%	1,819	11%	6,530	41%	16,025
4,488	63%	778	11%	3,132	44%	7,124
2,770	62%	287	6%	1,805	41%	4,445
9,185	67%	1,917	14%	5,779	42%	13,631
436	76%	106	19%	251	44%	571
8,133	71%	542	5%	5,039	44%	11,405
1,527	67%	169	7%	1,229	54%	2,290
2,817	84%	187	6%	1,682	50%	3,371
18,439	63%	2,447	8%	15,647	53%	29,312
6,296	61%	426	4%	4,092	40%	10,300
4,162	65%	956	13%	3,052	48%	6,391
830	74%	84	7%	398	36%	1,121
1,245	69%	131	7%	1,125	62%	1,817
5,100	65%	293	4%	2,514	32%	7,808
102	32%	18	6%	141	45%	316
101	33%	4	1%	55	18%	309
107	47%	14	6%	83	36%	229
253	48%	26	5%	90	17%	522
2,556	47%	281	5%	1,753	33%	5,387
3259	73%	963	22%	1,277	29%	4,457
4,354	59%	754	10%	2,533	35%	7,322
21,819	55%	2,120	5%	15,145	38%	39,577
110,323	62%	14,850	8%	74,895	42%	179,052

APPENDIX VI

SCHEDULE OF RECEIPT SOURCES BY ASSET CATEGORY FOR SECTION 501(C)(3) ORGANIZATIONS IN THE 1982 SOI STUDY

	Asset Categories							
	$1-24,999		$25,000-99,999		$100,000-499,999		$500,000-999,999	
Receipt sources	Number	Amount ($ 000)	Number	Amount ($ 000)	Number	Amount ($ 000)	Number	Amount ($ 000)
Contributions	11,056	$432,311	10,576	$1,999,611	18,748	$5,344,562	5,244	$3,656,867
Percent of Category	74%	33%	71%	67%	81%	57%	87%	66%
Program Service Revenue	7,210	364,464	8,172	496,426	14,421	2,749,404	3,482	897,157
Percent of Category	48%	27%	55%	17%	62%	29%	58%	16%
Membership Dues & Assessments	3,845	126,165	6,249	118,785	4,807	328,827	1,536	195,078
Percent of Category	26%	9%	42%	4%	21%	4%	25%	4%
Interest on Savings & Cash Investments	7,691	5,383	11,056	34,367	18,267	140,636	5,019	115,390
Percent of Category	52%	b/	74%	1%	79%	2%	83%	2%
Other Investment Income	960	330	961	2,110	2,884	20,526	1,638	37,142
Percent of Category	6%	b/	6%	b/	12%	b/	27%	1%
Gross Rental Income	1,442	138,910	961	17,145	2,884	8,768	1,434	88,975
Percent of Category	10%	10%	6%	1%	12%	b/	24%	2%
Gross Amount from sale of assets	480	158,754	480	937	1,441	33,115	1,536	157,983
Percent of Category	3%	12%	3%	b/	6%	b/	25%	3%
Gross Income from Fundraising	3,365	23,615	3,845	180,592	5,288	253,524	921	140,997
Percent of Category	23%	2%	26%	6%	23%	3%	15%	3%
Gross Sales minus Returns & Losses	961	16,655	1,922	59,104	6,730	311,800	717	19,681
Percent of Category	6%	1%	13%	2%	29%	3%	12%	b/
Other Revenue	6,249	62,862	5,768	56,478	11,537	181,769	3,482	233,750
Percent of Category	42%	5%	39%	2%	50%	2%	58%	4%
Total Organizations and Receipts by Asset Category c/	14,902	$1,329,449	14,902	$2,965,563	23,075	$9,372,931	6,043	$5,543,020

a/ Row totals may not add to exact total figures due to rounding.
b/ If no percent figure is shown, the number represents less than 1 percent.
c/ The amount of receipts totals down by column. The number of organizations does not total by column because an organization could receive revenue from more than one source.

APPENDIX VI

$1,000,000-9,999,999		$10,000,000-49,000,000		$50,000,000 or more		Total organizations and receipts by receipt source a/	
Number	Amount ($ 000)	Number	Amount ($ 000)	Number	Amount ($ 000)	Number	Amount ($ 000)
10,611 84%	$9,875,830 29%	2,925 90%	$8,338,123 13%	883 91%	$11,625,411 10%	60,025 79%	$41,272,718 18%
8,993 71%	16,525,254 48%	2,696 83%	42,001,862 66%	843 87%	61,338,774 52%	45,821 60%	124,373,343 53%
2,598 21%	516,548 2%	333 10%	561,441 1%	66 7%	629,862 1%	19,438 26%	2,476,708 1%
9,851 78%	618,652 2%	2,522 78%	985,270 2%	737 76%	1,472,205 1%	55,146 73%	3,371,905 1%
5,553 44%	663,330 2%	2,051 63%	1,063,782 2%	732 76%	4,311,549 4%	14,783 20%	6,098,782 3%
3,866 31%	517,437 2%	1,206 37%	196,306 b/	422 44%	331,418 b/	12,216 16%	1,298,963 1%
5,342 42%	1,985,284 6%	2,039 63%	5,658,817 9%	726 75%	28,310,828 24%	12,049 16%	36,305,722 16%
2,194 17%	777,128 2%	257 8%	177,242 b/	73 8%	88,290 b/	15,946 21%	1,641,390 1%
2,469 20%	1,463,557 4%	792 24%	2,801,810 4%	298 31%	3,287,503 3%	12,891 18%	7,960,114 3%
7,554 60%	1,299,260 4%	2,412 74%	1,848,925 3%	723 75%	5,727,026 5%	37,728 50%	9,410,072 4%
12,595	$34,242,280	3,251	$63,633,578	967	$117,122,866	75,738	$234,209,717

SCHEDULE OF RECEIPT SOURCES BY ASSET CATEGORY FOR SECTION 501(C)(4) ORGANIZATIONS IN THE 1982 SOI STUDY

	Asset Categories							
	$1-24,999		$25,000-99,999		$100,000-499,999		$500,000-999,999	
Receipt sources	Number	Amount (000 $)	Number	Amount (000 $)	Number	Amount (000 $)	Number	Amount (000 $)
Contributions	1,855	$14,434	2,898	$252,508	2,087	$153,148	431	$29,910
Percent of Category	39%	6%	52%	36%	42%	13%	43%	7%
Program Service Revenue	1,275	46,357	1,159	34,143	1,739	230,119	369	103,049
Percent of Category	27%	20%	21%	5%	35%	19%	37%	25%
Membership Dues & Assessments	3,942	47,445	4,290	128,967	3,246	198,495	446	154,752
Percent of Category	83%	21%	77%	19%	65%	16%	45%	38%
Interest on Savings & Cash Investments	3,478	3,511	4,290	10,430	4,174	42,962	862	12,865
Percent of Category	73%	2%	77%	1%	84%	4%	86%	3%
Other Investment Income	231	275	579	2,102	926	4,232	169	8,955
Percent of Category	5%	b/	10%	b/	19%	b/	17%	2%
Gross Rental Income	347	1,823	1,159	9,479	1,391	22,523	385	19,300
Percent of Category	7%	1%	21%	1%	28%	2%	38%	5%
Gross Income from sale of assets	0	0	0	0	462	10,239	138	13,947
Percent of Category	b/	b/	b/	b/	9%	1%	14%	3%
Gross Income from Fundraising	2,666	59,490	2,550	59,247	1,971	164,994	323	14,196
Percent of Category	56%	26%	46%	9%	40%	14%	32%	3%
Gross Sales minus Returns & Losses	1,275	24,989	1,971	156,510	1,971	249,423	169	38,380
Percent of Category	27%	11%	35%	22%	40%	21%	17%	9%
Other Revenue	2,782	30,775	2,898	42,566	3,246	130,986	554	11,262
Percent of Category	59%	13%	52%	6%	65%	11%	55%	3%
Total Organizations and Receipts by Asset Category c/	4,753	$229,099	5,565	$695,952	4,985	$1,207,121	1,001	$406,616

a/ Row totals may not add due to rounding.
b/ If no percent figure is shown, the number represents less than 1 percent.
c/ The amount of receipts totals down by column. The number of organizations does not total by column because an organization could receive revenue from more than one source.

APPENDIX VII

$1,000,000-9,999,999		$10,000,000-49,000,000		$50,000,000 or more		Total organizations and receipts by receipt source a/	
Number	Amount (000 $)	Number	Amount (000 $)	Number	Amount (000 $)	Number	Amount (000 $)
270	$336,224	21	$30,418	8	$348,585	7,571	$1,165,229
18%	12%	15%	1%	10%	1%	42%	2%
652	1,442,960	78	2,094,252	61	25,800,140	5,335	29,751,022
43%	50%	55%	46%	75%	53%	30%	51%
330	374,753	39	1,422,268	19	2,693,132	12,315	5,019,814
22%	13%	27%	31%	23%	6%	68%	9%
1,251	73,343	115	80,214	64	251,102	14,236	474,430
82%	3%	81%	2%	79%	1%	79%	1%
292	41,264	76	56,096	67	453,204	2,346	566,133
19%	1%	54%	1%	83%	1%	13%	1%
747	191,111	46	25,089	32	34,083	4,109	303,411
49%	7%	32%	1%	40%	b/	23%	1%
149	137,809	60	304,858	76	16,931,264	808	17,398,121
10%	5%	42%	7%	94%	35%	5%	30%
50	3,797	2	11,224	1	66,685	7,566	379,637
3%	b/	1%	b/	1%	b/	42%	1%
122	212,319	12	462,286	9	1,022,361	5,531	2,166,269
8%	7%	8%	10%	11%	2%	31%	4%
791	101,425	69	28,652	47	892,769	13,390	1,238,439
52%	3%	49%	1%	58%	2%	58%	2%
1,527	$2,915,005	142	$4,515,357	81	$48,493,325	18,057	$58,462,505

PARTICIPANTS IN THE BUSINESS COALITION FOR FAIR COMPETITION

Participants Whose Members Were Solicited by GAO Questionnaire for Perceptions on the Competition Issue

Association	Approximate membership
American Council of Independent Laboratories, Incorporated	256
American Society of Travel Agents[1]	12,345
American Veterinary Medical Association	41,000
International Communications Industries Association	509
International Racquet Sports Association	703

Participants Contacted by GAO to Discuss Perceptions on the Competition Issue

Association	Approximate membership
American Association of Nurserymen	100
American Association of Small Research Companies	450
American Consulting Engineers Council	53
American Orthotic and Prosthetic Association	700

[1]Represents approximately 12,310 travel agents and 35 tour operators.

Association of Data Processing Service Organizations, Inc.	800
Association of Indoor Recreational Facilities of Virginia	2
Association of Physical Fitness Centers	90
Federation of American Hospitals	1,000
Information Industry Association	450
National Association of Medical Equipment Suppliers	1,600
National Association of Chain Drugstores, Incorporated	178
National Association of Retail Druggists	30,000
National Hearing Aid Society	2,500
National Tour Association	487
Professional Services Council	90
Specialty Advertising Association	3,300
Textile Rental Service Association	1,400
United Bus Owners of America	2,000
National Federation of Independent Business Incorporated[2]	550,000
National Tax Equality Association[2]	1,500

[2]These participants represent businesses in varied industries.

Participants For Whom Perceptions Were Obtained From Position Papers and/or a BCFC Representative

Association
American Blood Resources Association
International Association of Wiping Cloth Manufacturers
Pencil Makers Associations

Participants Not Contacted by GAO for Industry Perception on the Competition Issue

Participant
The Alamo II[3]
Bear Creek Corporation[3]
Fiscal Planning Service[3]
Trilling and Kennedy[3]
U.S. Health[3]
Chamber of Commerce of the United States

[3]Represent a single firm.

ORGANIZATIONS CONTACTED BY GAO AS REPRESENTING THE TAX-EXEMPT COMMUNITY[4]

The Independent Sector: Represents almost 600 foundations, coroporations, and national voluntary associations. National voluntary associations constitute approximately 52 percent, or 283 associations, of the membership. These include the National Audubon Society, the National Assembly, the Urban Institute, and the Boy Scouts of America.

Grants and Contracts Project: A 14-member group primarily representing tax-exempt organizations providing social and human service functions. Member associations include Catholic Charities, the Salvation Army, and YMCA of the USA.

The National Assembly of Voluntary Health and Welfare Organizations: A 30-member association of national voluntary human service organizations. Members include the American Red Cross, the Boys Club of America, and United Way of America.

The YMCA of the USA: A national association which provides advice and guidance to approximately 2,200 independently operated YMCAs throughout the Nation; the association does not exercise control over individual YMCAs.

The Humane Society of the United States: A national association which provides advice and nonfinancial support to approximately 2,000 independetly operated humane societies throughout the country.

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[4]These organizations were contacted because of their interest in the issue of competition and their representation of section 501(c)(3) and section 501(c)(4) organizations, which account for approximately half of all tax-exempt organizations. There is duplication in the membership of these organizations. For instance, the National Assembly is a member of the Independent Sector.

QUESTIONNAIRE OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our questionnaire was to obtain from selected taxable businesses their perceptions on the issue of competition with tax-exempt organizations. The questionnaire requested background information about the respondent's business and the respondent's perceptions of the extent, if any, of competition with tax-exempt organizations and its effects. As such, the questionnaire provides perspective on the perceptions of business representatives about competition with tax-exempt organizations. The questionnaire responses were not verified by GAO. Respondents could have an incentive to respond in a biased manner, and the results should be interpreted in this light.

The 1,738 businesses solicited were randomly selected from 5 associations participating in the Business Coalition for Fair Competition representing 6 industries:

-- International Communications Industries Association--audio-visual industry.

-- International Racquet Sports Association--racquet sports industry.

-- American Council of Independent Laboratories, Inc.--research and testing industry.

-- American Society of Travel Agents--travel agents and tour operator industries.[5]

-- American Veterinary Medical Association--veterinarian industry.

These associations were selected primarily because business representatives in these industries seemed to have voiced the most concern to SBA about the competition issue.

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[5]This association represents two industries--travel and tour. We separated them for our questionnaire because initial work indicated that each industry had different perceptions about competition.

Projection of sample results

We took a sample of taxable businesses in five of the six industries; we sent a questionnaire to all association members in the tour industry because of the small universe. Each taxable business in a sample represents a member of a larger universe and, therefore, their responses can be "weighted" to project to the total universe.

The following example illustrates how we projected questionnaire responses to the universe. Of the 256 research and testing firms in the American Council of Independent Laboratories, we took a sample of 194 firms. We calculated the weighting factor by dividing the universe size by the sample size (256/194 = 1.32). Therefore, we can project any response by a research and testing firm to 1.32 research and testing firms in the universe. The universe and sample sizes are shown in table X.1.

Table X.1
GAO's Sample of Taxable Businesses from the Business Coalition for Fair Competition Membership

Six industry associations in the Business Coalition for Fair Competition	Universe of association's membership	GAO sample	Number of respondents to questionnaire	Response rate	Projected universe
Research	256	194	166	86	219
Racquet sports	703	300	200	67	469
Veterinarians	25,800	470	342	73	18,774
Travel	12,310	469	293	63	7,690
Tour	35	35	29	83	29
Audio-visual	509	270	197	73	371

Questionnaire response rate

The questionnaire response rate varies from a high of 86 percent for research and testing firms to a low of 63 percent for travel agents. Two samples had response rates in the 60-percent range, two in the 70-percent range, and two in the 80-

percent range. The low response rates for racquet sports clubs and for travel agents could make the statistical estimates from their questionnaires problematic if nonresponses occur systematically in the sample rather than at random. Though we have no empirical basis to determine if any systematic bias occurred in our samples, there is a presumption that those who perceive little or no experience with competition may not have responded. Under this presumption, statistical estimates of the extent of perceived competition would be lower than if a much greater response rate were achieved.

Sampling errors

The sampling errors for estimates in this report varied depending on the population and question number. Generally, the sampling errors for estimates are approximately 5 percent at the 95 percent confidence level. The sampling errors are higher for some questions due to the nonresponse rate. The maximum sampling errors for selected questions are shown in table X.2.

Table X.2:
Sampling Error Rates for
Selected Questionnaire Questions[a]

Question	Error Rate by Respondent Category				
	Audio-visual	Racquet sports	Research	Travel agents	Veterinarians
In which year did your firm begin engaging in its primary business activities? (Question 2)	4.4	4.7	3.6	5.6	5.0
To what extent, if any, do: 1) your industry and 2) your firm encounter competition from tax-exempt organizations? (Question 9)	4.8	5.8	3.6	5.8	5.3

Currently, how much of a problem, if any, do you regard the competition encountered from tax-exempt organizations for 1) your industry and 2) your firm? (Question 11)	4.5	5.2	3.4	5.8	5.3
With about how many tax-exempt organizations, if any, has your firm competed in the last 6 years? (Question 12)	4.7	5.1	3.8	5.7	5.2
During the past 6 years (1980-1985), to what extent, if any, have you experienced competition from each of the following types of tax-exempt organizations? (Question 15)	10.9	8.3	4.5	7.3	6.6
During the past 6 years (1980-1985), on an overall basis, to what extent, if any, did your firm experience competition from these tax-exempt organization(s)? (Question 16)	6.5	6.0	4.1	8.4	7.1
To what extent, if any, do you believe the following factors contribute to an advantage for tax-exempt organization(s)? (Question 20)	6.5	5.7	4.2	8.7	7.1

[a]Sampling error rates are not relevant for the tour respondents since we sent questionnaires to the entire universe.

APPENDIX X

Instrument development, data collection, and evaluation

During the summer of 1985, we developed a questionnaire and pre-tested it with representatives of each industry group. On January 31, 1986, we mailed questionnaires to 1,738 randomly selected businesses representing six industries. To increase response rates, follow-up letters were sent to nonresponding businesses on March 18, 1986 and April 22, 1986.

The results from the completed questionnaires were edited for consistency, coded, and entered into a computer data base. The resulting data sets were then verified for accuracy.

APPENDIX XI

U.S. GENERAL ACCOUNTING OFFICE

STUDY OF POSSIBLE COMPETITION BETWEEN

TAX-EXEMPT ORGANIZATIONS AND TAXABLE BUSINESSES

INTRODUCTION

The U.S. General Accounting Office (GAO), an investigative agency of Congress, is conducting a study of possible competition between tax-exempt organizations and taxable businesses. The purpose of this questionnaire is to assist us in developing data on the extent, if any, to which tax-exempt organizations and taxable businesses compete, and the specific nature of this competition.

Tax-exempt organizations include federal, state or local government, an instrumentality of a government or an entity organized under Section 501(c) of the Internal Revenue Code. IRC 501(c) encompasses 23 broad categories of organizations such as 501(c)(3) -- charitable, educational or religious organizations; 501(c)(6) -- business or professional associations; and 501(c)(7) -- social or recreation clubs. Generally, a tax is imposed upon income derived by a tax-exempt organization from activities not substantially related to the organization's purpose for exemption. This tax is referred to as the unrelated business income tax.

Most of the questions can be easily answered by checking boxes or filling in blanks. Space has been provided for any additional comments at the end of the questionnaire. If necessary, additional pages may be attached.

Your responses will be treated confidentially. They will be combined with others and reported only in summary form. The questionnaire is numbered only to aid us in our follow-up efforts and will not be used to identify you with your response. We cannot develop meaningful information without your frank and honest answers.

Please return the completed questionnaire in the enclosed self-addressed envelope within 10 days of receipt. In the event that the envelope is misplaced, please mail the completed questionnaire to:

U.S. GENERAL ACCOUNTING OFFICE
Mr. Andrew Macyko
Room 3660
441 G Street, N.W.
Washington, D.C. 20548

If you anticipate any difficulty returning the questionnaire within the requested timeframe, or have any questions, please call Mr. Andrew Macyko on (212) 264-0746 or Mr. Jack Harrison on (212) 264-8565.

Thank you for your cooperation.

A. BACKGROUND

1. Which of the following activities represents your firm's primary business activity? (CHECK ONE.) (6)

1. ☐ Audio-visual or video production
2. ☐ Audio-visual or video sales and service
3. ☐ Consulting engineering service
4. ☐ Health/fitness club
5. ☐ Racquet/sports club
6. ☐ Research and testing service, environmental
7. ☐ Research and testing service, medical/scientific
8. ☐ Travel--arranging/conducting custom travel for individuals
9. ☐ Travel--arranging/conducting custom travel for businesses
10. ☐ Veterinary services (medical/surgical)
11. ☐ Veterinary services (animal shelter)
12. ☐ Other (please specify)

_____

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2. In which year did your firm begin engaging in these major activities? (ENTER YEAR.) (7-8)

19____
(Year)

3. Which of the following legal structures best describes your firm? (CHECK ONE.) (9)

1. ☐ Cooperative
2. ☐ Corporation
3. ☐ Partnership
4. ☐ Sole proprietorship
5. ☐ Other (please specify)

_____

B. YOUR FIRM'S BUSINESS ACTIVITIES

4. Approximately what were your firm's gross receipts for tax year 1984? (CHECK ONE.) (10-11)

1. ☐ $24,999 or under
2. ☐ $25,000 - $49,999
3. ☐ $50,000 - $99,999
4. ☐ $100,000 - $149,999
5. ☐ $150,000 - $199,999
6. ☐ $200,000 - $299,999
7. ☐ $300,000 - $499,999
8. ☐ $500,000 - $999,999
9. ☐ $1,000,000 - $4,999,999
10. ☐ $5,000,000 - $9,999,999
11. ☐ $10,000,000 - $49,999,999
12. ☐ $50,000,000 or over

5. What was the approximate average number of employees (full-time and part-time) in your firm during tax year 1984? (CHECK ONE.) (12)

1. ☐ 1 to 5 employees
2. ☐ 6 to 25 employees
3. ☐ 26 to 99 employees
4. ☐ 100 to 499 employees
5. ☐ 500 to 999 employees
6. ☐ 1,000 or more employees

6. Which of the following best describes the primary geographic target area for your firm's market? (CHECK ONE.) (13)

1. ☐ National
2. ☐ Multi-state
3. ☐ State
4. ☐ Multi-county
5. ☐ County
6. ☐ City, town, or suburb
7. ☐ Other (please specify)

_____

APPENDIX XI

7. Considering your firm's gross receipts for tax year 1984, estimate the percentage of these receipts that were generated by the following kinds of customer. (ENTER PERCENTAGES.)

Kinds of customers	Tax year 1984 gross receipts	
1. Private individuals	____%	(14-16)
2. For-profit companies	____%	(17-19)
3. Governments	____%	(20-22)
4. Public and private educational institutions	____%	(23-25)
5. Charitable/religious organizations	____%	(26-28)
6. Other tax-exempt organizations (e.g., associations, social, fraternal)	____%	(29-31)
7. Other (please specify)		
_____	____%	(32-34)
_____	____%	(35-37)
TOTAL	100%	

8. With about how many other taxable businesses does your firm directly compete? (CHECK ONE.) (38)

- 1. ☐ Don't know
- 2. ☐ None
- 3. ☐ 5 or fewer taxable businesses
- 4. ☐ 6 to 15 taxable businesses
- 5. ☐ 16 to 25 taxable businesses
- 6. ☐ 26 to 50 taxable businesses
- 7. ☐ 51 to 100 taxable businesses
- 8. ☐ Over 100 taxable businesses

C. COMPETITION WITH TAX-EXEMPT ORGANIZATIONS INCLUDING GOVERNMENT, INSTRUMENTALITIES OF GOVERNMENT, AND 501(c) ORGANIZATIONS (SEE DEFINITION IN INTRODUCTION, P. 1.)

In this section we are soliciting your opinion on the existence of competition, if any, in your industry from tax-exempt organizations. Competition occurs when a tax-exempt organization is in a similar line of business and markets in the same area as a taxable business within your industry.

9. To what extent, if any, do: 1) your industry and 2) your firm encounter competition from tax-exempt organizations? (CHECK ONE BOX FOR EACH ROW.)

TAX-EXEMPT COMPETITION ENCOUNTERED BY . . .	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	
1. your industry						(39)
2. your firm						(40)

APPENDIX XI

10. In which of the following ways have you become aware of competition between tax-exempt organizations and taxable businesses? (CHECK ALL THAT APPLY.)

1. ☐ First-hand experience, i.e., a tax-exempt organization actually competed with your firm (41)
2. ☐ Contact with colleagues or other firms which experienced competition (42)
3. ☐ Industry association newsletters or other notifications (43)
4. ☐ Small Business Administration report on "Unfair Competition" (44)
5. ☐ Media accounts, e.g., newspapers, magazines (45)
6. ☐ Other (please specify) (46)

_____

11. Currently, how much of a problem, if any, do you regard the competition encountered from tax-exempt organizations for 1) your industry, and 2) your firm? (CHECK ONE BOX IN EACH ROW.)

TAX-EXEMPT COMPETITION ENCOUNTERED BY . . .	Little or no problem (5)	Some problem (4)	Moderate problem (3)	Great problem (2)	Very great problem (1)	No basis to judge (6)	
1. your industry							(47)
2. your firm							(48)

D. YOUR FIRM'S EXPERIENCE WITH COMPETITION FROM TAX-EXEMPT ORGANIZATIONS

12. With about how many tax-exempt organizations, if any, has your firm competed in the last 6 years? (CHECK ONE.) (49)

1. ☐ None (SKIP TO QUEST'ON 25.)
2. ☐ 1 tax-exempt
3. ☐ 2 to 5 tax-exempts
4. ☐ 6 to 10 tax-exempts
5. ☐ 11 or more tax-exempts

13. In what calendar year did your firm first experience competition from a tax-exempt organization? (ENTER YEAR.)

19____ (50-51)
(Year)

14. Since then, have (1) the number of and (2) the extent of commercial activity from tax-exempt organizations with which your firm competes increased, remained about the same, or decreased? (CHECK ONE BOX FOR EACH ROW.)

	Greatly increased (1)	Increased (2)	Remained about the same (3)	Decreased (4)	Greatly decreased (5)	No basis to judge (6)	
1. Number of tax-exempt organizations							(52)
2. Extent of commercial activity from tax-exempt organizations							(53)

15. During the past 5 years (1980-1985), to what extent, if any, have you experienced competition from each of the following types of tax-exempt organizations? (CHECK ONE BOX FOR EACH ROW.)

TYPES OF TAX-EXEMPT ORGANIZATIONS	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)	
1. Business or professional association							(54)
2. Government--Federal							(55)
3. Government--State or local							(56)
4. Hospital							(57)
5. Humane or animal welfare organization							(58)
6. Museum							(59)
7. Recreation/health/sports/fitness club							(60)
8. Religious organization							(61)
9. Research organization							(62)
10. Social/fraternal organization							(63)
11. University or college--private							(64)
12. University or college--public							(65)
13. YM/YWCA or YM/YWHA							(66)
14. Other (please specify) _____							(67)

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16. During the past 6 years (1980-1985), on an overall basis, to what extent, if any, did your firm experience competition from these tax-exempt organization(s)? (CHECK ONE BOX FOR EACH ROW.)

YEARS	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	Not applicable (6)	
1. 1980							(68)
2. 1981							(69)
3. 1982							(70)
4. 1983							(71)
5. 1984							(72)
6. 1985 to date							(73)

17. Please list below the full name(s) of the tax-exempt organization(s) with which you primarily experienced competition during the past 6 years. (USE THE FIRST LINE TO LIST YOUR PRIMARY TAX-EXEMPT COMPETITOR.)

Tax-exempt organizations

1. _____ (74)
(primary)

2. _____ (75)

3. _____ (76)

4. _____ (77)

18. Please consider your primary tax-exempt competitor. Approximately what percent of your firm's type of services or products is also offered by that competitor? (CHECK ONE.) (78)

1. ☐ 1% - 5%
2. ☐ 6% - 10%
3. ☐ 11% - 20%
4. ☐ 21% - 30%
5. ☐ 31% - 50%
6. ☐ 51% - 75%
7. ☐ 76% - 100%

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19. To what extent, if any, do the following factors indicate the commercial nature of the activity of the tax-exempt organization(s) with which your firm competes? (CHECK ONE BOX FOR EACH ROW.)

FACTORS	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)	
1. Price is below market of that of similar activity performed by taxable businesses							(79)
2. Price is competitive with that of similar activity performed by taxable businesses							(80)
3. Activity or service is offered to the general public							(81)
4. Activity or service goes beyond that required to achieve the exempt purpose of the organization							(82)
5. Activity is widely advertized; such as through direct mail, newspaper, radio ads, and magazines							(83)
6. Target market is largely similar to that served by taxable businesses							(84)
7. Other factors (please specify) _____							(85)

20. To what extent, if any, do your believe the following factors contribute to an advantage for tax-exempt organization(s)? (CHECK ONE BOX FOR EACH ROW.)

FACTORS	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	No basis to judge (6)	
1. Exclusion of earnings from federal income tax							(86)
2. Reduced cost or free postage							(87)
3. Reduced cost or free advertising							(88)
4. Subsidization of competitive activity by tax-exempt facilities, personnel, etc.							(89)
5. Government subsidy; e.g., grants, facilities, etc.							(90)
6. Exclusion from regulatory requirements							(91)
7. Exclusion from state and local property and other taxes							(92)
8. Goodwill associated with tax-exempt status							(93)
9. Other factors (please specify) _____							(94)

21. To what extent, if any, has competition from tax-exempt organizations resulted in the following effects on your firm? (CHECK ONE BOX FOR EACH ROW.)

EFFECTS	Little or no extent (1)	Some extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	
1. Reduced a potential market						(95)
2. Reduced a current or prior market						(96)
3. Necessitated price reduction to remain competitive						(97)
4. Decreased profits						(98)
5. Required layoffs, or other curtailment of operations						(99)
6. Other effects (please specify) _____						(100)

22. Have you communicated your views (formally or informally) regarding your firm's problems with competition from tax-exempt organizations? (CHECK ONE.) (101)

1. ☐ Yes
2. ☐ No (SKIP TO QUESTION 24.)

23. With which of the following have you formally or informally communicated your views on your firm's problems regarding competition with tax-exempt organization(s)? (CHECK ALL THAT APPLY.)

1. ☐ Your colleagues (102)
2. ☐ Your local association (103)
3. ☐ Your national association (104)
4. ☐ Your competing tax-exempt organization (105)
5. ☐ State/local government official (106)
6. ☐ Federal government official (107)
7. ☐ Elected representative, e.g., State senator, U.S. senator, Congressman (108)
8. ☐ Other (please specify) _____ (109)

24. Although it may be difficult to estimate the direct impact of commercial activity by tax-exempts on the gross receipts of your firm, we would appreciate it if you would attempt to estimate below the percentage increase in gross receipts that your firm might have realized in tax year 1984 if you had no competition from tax-exempt organizations. (CHECK ONE.) (110)

1. ☐ 0
2. ☐ 1% - 5%
3. ☐ 6% - 10%
4. ☐ 11% - 15%
5. ☐ 16% - 20%
6. ☐ 21% - 25%
7. ☐ 26% - 50%
8. ☐ 51% - 75%
9. ☐ 76% - 100%
10. ☐ Over 100%
11. ☐ No basis to judge

APPENDIX XI

25. Below is a list of possible government actions to address the issue of competition between tax-exempt organizations and taxable firms within your industry. If these actions took place, how useful, if at all, would they be to your industry? (CHECK ONE BOX IN EACH ROW.)

ACTIONS	Little or no use (1)	Some use (2)	Moderate use (3)	Great use (4)	Very great use (5)	No basis to judge (6)	
A. STATE/LOCAL GOVERNMENT							
1. Legislation by state/local government to limit competitive activity of state/local government agencies or public universities							(111)
2. Legislation by state/local government to limit competitive activity of Section 501(c) tax-exempt organizations, e.g., chair table, educational, religious fraternal organizations							(112)
3. Increased monitoring of tax-exempt organization commercial activity by state/local governments							(113)
B. FEDERAL GOVERNMENT							
4. Increased monitoring of tax-exempt organization commercial activity by IRS							(114)
5. Clarification or limitation upon the definition of what is considered an activity "substantially related" to an organization's exempt purpose, and hence exempt from the unrelated business income tax (IRC 513)							(115)
6. Elimination of certain statutory exceptions to the unrelated business income tax, (IRC 512 and 513) such as the exception for research performed by a university, college or foundation (IRC 512) and for a business operated by a charitable organization for the convenience of members, students or patients (IRC 513)							(116)
7. Establishment of a parameter for unrelated business income which, when exceeded, could jeopardize an organization's tax-exempt status							(117)
8. Increased monitoring of tax-exempt organizations by other regulatory agencies, such as by the Postal Service for the use of reduced postage rates, or by the National Science Foundation for the use of scientific equipment							(118)
9. Extension of the unrelated business income tax to all commercial competitive activities of tax-exempt organizations							(119)
10. Other (please list) _____							(120)

APPENDIX XI

E. GENERAL COMMENTS

26. If you have additional comments regarding any previous question or general comments concerning the issue of competition between tax-exempt organizations and taxable businesses, please use the space below. If necessary, you may attach additional sheets. (121)

THANK YOU FOR YOUR ASSISTANCE!

GGD-MRS-1/86

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